BUSINESS CHECKING FREEDOM ACT OF 2003—H.R. 758 AND H.R. 859

HEARING

BEFORE THE

SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT

OF THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

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BUSINESS CHECKING FREEDOM ACT OF 2003—H.R. 758 and H.R. 859

Wednesday, March 5, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND CONSUMER CREDIT
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to call, at 2:14 p.m., in Room 2220, Rayburn House Office Building, Hon. Spencer Bachus [chairman of the subcommittee] presiding.

Present: Representatives Bachus, Royce, Kelly, Gillmor, Toomey, Fossella, Hart, Kennedy, Hensarling, Garrett, Murphy, Brown-Waite, Barrett, Sanders, Maloney, Sherman, Kanjorski, Waters, Lucas of Kentucky and Israel.

Chairman BACHUS. [Presiding.] The Subcommittee on Financial Institutions and Consumer Credit is convened. This is a hearing on two bills, the Business Checking Freedom Act, by Representative Toomey; then H.R. 859, which is a sterile reserve bill which is introduced by Representative Kelly.

On panel one, we have two rookies that have never testified before the Committee before, but not rookies to the issue and to financial matters. I am going to wait on my opening statement and go right to the testimony. The first one is the Honorable Donald Kohn, Governor, Federal Reserve Board; and second witness is Wayne Abernathy, who is the Assistant Secretary for Financial Institutions at the Department of Treasury. Gentlemen, we welcome you and look forward to your testimony. Have you decided on whether to go left or right?

Do you have an opening statement?

Mr. SHERMAN. A short one.

Chairman BACHUS. Okay.

Mr. SHERMAN. I think it is important that we allow banks to pay interest on checking. I look forward to the two bills somehow being merged into one. I look forward to the bills being modified so that they cover industrial loan banks as found in California and some other states. I am glad that this bill provides for a one-year phase-in, because we are passing it a year after we wanted to pass a two-year phase-in.

With that, I yield back.

Chairman BACHUS. Actually, I thought the bills had been merged.

Mr. SHERMAN. They may have already been merged.

Chairman BACHUS. No, they have not.

Mr. SHERMAN. They have not? But I look forward to them being merged.

Chairman BACHUS. We have been approaching this as a package deal, but they are separate bills. I think they both have the same title.

Mr. SHERMAN. They could be merged, packaged, fused.

Chairman BACHUS. Although they deal with two different subjects, they are interrelated. We consider them as a package.

Mr. Sanders, do you have an opening statement?

Mr. SANDERS. I am sure we are in agreement. I will just be repeating what you say.

[Laughter.]

Not really.

Chairman BACHUS. No. I am aware of that.

Mr. SANDERS. My apologies for being late.

Chairman BACHUS. We just started.

Mr. SANDERS. Thank you for holding this hearing. I look forward to working with you as the new ranking member of the Financial Institutions and Consumer Credit Subcommittee.

Mr. Chairman, according to revised estimates by the Republican-controlled House Budget Committee, the record-breaking federal deficit could soar to $400 billion if President Bush's tax cuts are approved on a full course this year, funded to tens of billions of dollars, according to the New York Times. The national debt is over $6.3 trillion. The cost of war with Iraq could cost between $100 billion and God only knows if we occupy that country for 10 years. President Bush's tax cuts will cost us trillions over the next decade.

Given this reality, the question is, should the Federal Reserve be giving what amounts to corporate welfare to some of the largest banks in this country through interest on so-called sterile reserves? Unless this money would go toward reducing the record-breaking $435 billion trade deficit by expanding employee ownership, addressing the affordable housing crisis, expanding health insurance for the 42 million Americans who are uninsured, and addressing some of our increasing social needs, I think the answer should be a resounding no.

Without going into great detail right now, the bottom line for me is this country has a huge deficit. We have huge unmet social needs in health care, education, veterans needs and so forth and so on. So I should tell you that I walk into this hearing today with some skepticism about the proposal, but I look forward to further discussion.

Thank you, Mr. Chairman.

Chairman BACHUS. I appreciate that.

Ms. Kelly, do you have an opening statement?

Mrs. KELLY. Yes, I do, Mr. Chairman. Thank you. I want to thank you and the ranking member for holding a hearing today. Though this is a familiar discussion for many of us today, I am glad to be here talking about the bill and talking about it early in this session.

Getting straight to the matter, my bill, H.R. 758, contains three initiatives. First, it allows the banks to increase money market deposit and savings account sweeps from the current 6 to 24 times a month. This gives the bank an increase in their sweep activities, enabling them to sweep every night, thereby increasing the interest that businesses can make on their accounts. Second, to give the Federal Reserve the authority to pay interest on reserves, banks keep within the federal system. This is a good thing to do economically because it will bring stability to the federal funds rate, which is subject to volatility when reserves become too low. This is also useful since these reserves have functioned as an implicit tax on our banks, and would offset the costs of repeal of the prohibition on business checking.

Finally, my bill gives the Federal Reserve the additional flexibility to lower reserve requirements. This will give the Federal Reserve greater control at maintaining reserves at a specific and consistent level. It is a good measure and one that this Committee and this House have passed before, with broad support. I hope we can get the job done this year, and as I said, I am encouraged by the Committee's willingness to make this an early priority once again in this Congress.

I anticipate that Mr. Toomey's bill, H.R. 859, will be merged with my bill later in the Committee during this month. In doing this, I think we have to be mindful of the importance of a proper transition period. We must make sure that banks and businesses have sufficient time to unwind their current relationships. My goal continues to be to assist our main street banks which are so essential to our communities, and I think this is a good step forward in this effort.

Again, I thank the chairman and ranking member, and I yield back the balance of my time.

Chairman BACHUS. Thank you. I am going to ask unanimous consent that we limit the opening statements to two on each side.

Mr. SANDERS. As long as one statement is in opposition.

Chairman BACHUS. How about three on each side?

Mr. SANDERS. Can we put opening statements into the record?

Chairman BACHUS. No, just to have oral opening statements. We will have three on each side, and Mr. Royce and Mr. Toomey with unanimous consent. And on your side, is there a member that wishes to make a statement? Ms. Maloney? We will limit those to three more opening statements.

At this time, Ms. Maloney is recognized. Well actually, we have had two on this side, so I am going to go to Mr. Royce and then back to you. And then Mr. Toomey, you will conclude the oral statements.

Mr. ROYCE. Mr. Chairman, I thank you very much. Just to go to the crux of my opposition here, I believe that the underlying legislation is long overdue. It is necessary, but I have got to qualify my support. I believe that by not providing interest on business checking parity to industrial loan companies, many of which are chartered in my home state of California, this legislation will subject these well-regulated institutions at an unfair competitive disadvantage in the financial services marketplace. I strongly believe that this oversight must be addressed before the Committee sends this bill to the House floor for a final vote on its passage.

I thank you very much for allowing me the time to make that statement, Mr. Chairman.

Chairman BACHUS. The gentlelady from New York?

Mrs. MALONEY. I first want to compliment my colleague Sue Kelly for her work on this issue, not only in this Congress, but I think for the past several congresses this has been an area of concern on which she has worked. Last Congress, it passed the House by voice vote unanimously. We know that it really removed the Depression-era prohibition on the payment of interest on business checking accounts. The prohibition on interest for business checking was instituted to prevent larger city-centered banks from attracting deposits away from smaller institutions during the Great Depression. Given the global nature of financial services, interstate banking and advances in technology, consumers and businesses can now enjoy the full range of bank services no matter where their physical location.

This legislation will allow businesses of all sizes to accrue interest on their checking accounts, but it will most dramatically level the playing field for small and medium businesses that do not currently have access to sweeps and to sweep account programs. The small business community in my district and in others has been pushing for this legislation for years. Banks have sought ways around the prohibition such as cutting prices on services to pay implicit interest, or offering the sweep account option.

Passage of this legislation will increase efficiency by moving banks away from such bookkeeping maneuvers after a transition period. At the same time, we are considering legislation that allows the Federal Reserve to pay interest on sterile reserves and increased flexibility with regard to setting bank reserve requirements.

While I am very respectful of opinions on both sides of this issue, the language in the bill tracks last year's legislation and was supported by this Committee and the full House. So I look forward to the testimony today.

Thank you.

Chairman BACHUS. Thank you.

Mr. Toomey?

Mr. TOOMEY. Thank you very much, Mr. Chairman, and thank you for holding this hearing today on my bill, H.R. 859, the Business Checking Freedom Act, as well as Mrs. Kelly's bill, H.R. 758, and for helping to put this legislation on a fast track, which I think is appropriate given its history in the House.

H.R. 859 is a very straightforward and simple bill. As I think many people may know, it simply eliminates a Depression-era prohibition on banks paying interest on demand deposits—an idea which I would suggest was probably not a very good one at the time, and certainly if it was, has long since outlived any useful purpose, in my judgment.

I want to thank the other sponsors of this bill—Mr. Kanjorski, Mrs. Biggert, Mr. Gonzalez, Mr. Shays, Mrs. Hooley, Mr. Ney, Mr. Paul and Mr. Sherman—for their support. Mr. Chairman, if I could, I would like to insert into the record letters that I have in support of this legislation from the Comptroller of the Currency, the FDIC, the Office of Thrift Supervision, each of which outlines why they believe this is important legislation.

Chairman BACHUS. Without objection.

[The following information can be found on pages 129 through 133 in the appendix.]

Mr. TOOMEY. With that, I will yield the balance of my time.

Chairman BACHUS. Thank you, Mr. Toomey.

At this time, Governor Kohn?

STATEMENT OF HON. DONALD L. KOHN, GOVERNOR, FEDERAL RESERVE BOARD OF GOVERNORS

Mr. KOHN. Thank you, Mr. Chairman. I will read excerpts from my testimony and ask that the full statement be included in the record.

Mr. Chairman, members of the Committee, I appreciate this opportunity to testify on behalf of the Federal Reserve Board on issues related to H.R. 859 and H.R. 758. The Board strongly supports the provisions in these bills that would eliminate the prohibition of interest on demand deposits, authorize the Federal Reserve to pay interest on balances held by depository institutions at Reserve Banks, and provide the Board with increased flexibility in setting reserve requirements.

As we have previously testified, unnecessary restrictions on the payment of interest on demand deposits and/or on balances held at Reserve Banks distort market prices and lead to economically wasteful efforts to circumvent these restrictions. Those efforts are more readily undertaken by larger banks, especially for their larger business customers.

Moreover, these bills would enhance the tool kit available for the continued efficient conduct of monetary policy. In addition, the provision of increased flexibility in setting reserve requirements would allow the Federal Reserve to reduce a regulatory burden on depository institutions to the extent that that is consistent with the effective implementation of monetary policy.

H.R. 758 would authorize the payment of interest on three types of balances held by depository institutions at the Federal Reserve: required reserve balances, contractual clearing balances, and excess reserves. I will discuss each briefly in turn. The purpose of reserve requirements is to facilitate the implementation of monetary policy. Reserve requirements achieve this by providing a predictable demand for balances held by banks at the Federal Reserve over a two-week period of averaging. This predictable demand for balances helps the Federal Reserve hit its target for overnight interest rates. However, required reserve balances pay no interest and largely for that reason banks spend resources to avoid reserve requirements, such as through arrangements that sweep deposits into non-reservable accounts or market instruments. Authorization of interest payments on required reserve balances would substantially reduce the incentives for banks to engage in these socially wasteful reserve-avoidance activities, and would thereby improve the efficiency of our financial sector.

Contractual clearing balances are additional balances that banks may hold at the Federal Reserve beyond the level of their required reserve balances. Banks contract in advance to hold such balances in order to pay checks or make wire transfers without running into overdrafts. These clearing balances do not earn explicit interest, but they do earn implicit interest for depository institutions in the form of credits that may be used to pay for Federal Reserve services such as check clearing.

Like required reserves, contractual clearing balances are maintained on a two-week average basis and are known in advance of the maintenance period. These balances also therefore facilitate the implementation of monetary policy. Explicit interest payments on these balances would make them more useful for monetary policy purposes because it would tend to boost their level and make them more stable over time by removing the link to a bank's use of Federal Reserve services.

Excess reserve balances are balances that banks hold at the Federal Reserve beyond the level of any required reserve or contractual clearing balances. They also earn no interest. Authorization of interest on excess reserves would add a potentially useful tool for the implementation of monetary policy. The interest rate on excess reserves would tend to act as a floor on overnight market interest rates. A bank would not lend balances to another bank at a lower rate than they could earn by keeping the excess at the Federal Reserve. While not currently needed, this floor for market interest rates could also potentially help the Federal Reserve hit its target for overnight interest rates.

H.R. 758 would also grant the Federal Reserve increased flexibility in setting reserve requirements, allowing the possibility that reserve requirements could be reduced below the minimum levels currently allowed by law, and even conceivably to zero at some point in the future. The Federal Reserve could make use of this flexibility, however, only if it were granted the authority to pay explicit interest on contractual clearing balances to ensure a stable and predictable demand for their remaining deposit balances at the Federal Reserve. If the Federal Reserve were granted the additional authorities included in H.R. 758, we would carefully study the new range of possible strategies for implementing monetary policy in the most efficient possible way for banks, the markets and the Federal Reserve.

The efficiency of our financial sector also would be improved by eliminating the prohibition of interest on demand deposits as provided for in H.R. 859. This prohibition distorts the pricing of transactions, deposits and associated bank services. In order to compete for the liquid assets of businesses, banks set up complicated procedures to pay implicit interest on compensating balance accounts. Banks also spend resources and charge fees for sweeping the excess demand deposits of larger businesses into money market investments on a nightly basis. Such expenses waste the economy's resources and they would be unnecessary if interest were allowed to be paid on both demand deposits and reserve balances.

H.R. 859 would delay for one year removing the prohibition of interest on demand deposits. The Federal Reserve Board believes that a short implementation delay of one year or even less would be in the best interests of the public and the efficiency of our financial sector.

A provision of H.R. 758 would in effect allow interest to be paid on demand deposits without any delay through a new type of sweep arrangement, but this provision would not promote efficiency. It would authorize a new interest earning account on which 24 transfers a month could be made to other accounts of the depositor. At the end of each business day, a bank could sweep demand deposits into the new account, pay interest, and then return the funds to the demand deposit the next morning. These sweep arrangements would allow banks to earn additional fees and perhaps be more selective about, in effect, paying interest on demand deposits in the one year before explicit interest payments were authorized. However, these sweeps would be another example of socially wasteful expenditure, and for this reason the Board does not advocate the new 24 transfer account.

The payment of interest on demand deposits would have no direct effect on federal revenues, as interest payments would be deductible for banks, but taxable for the firms that receive them. However, the payment of interest on required reserve balances would reduce the revenues received by the Treasury from the Federal Reserve. The extent of the revenue lost, however, has fallen over the last decade as banks have increasingly implemented reserve avoidance techniques. Paying interest on contractual clearing balances would primarily involve a switch to explicit interest from implicit interest, and therefore would have essentially no cost to the Treasury. The payment of interest on excess reserves could also be authorized without immediate effect on the budget because the Federal Reserve does not expect to use that authority in the years immediately ahead.

H.R. 758 includes a provision that transfers some of the capital surplus of the Federal Reserve banks to the Treasury in order to cover the budgetary costs of paying interest on required reserve balances. The Board has consistently pointed out that such transfers are not true offsets to higher budgetary cost. A transfer would allow the Treasury to issue fewer securities, but the Federal Reserve would need to lower its holdings of Treasury securities by the same amount to make the transfer. Thus, the level of Treasury debt held by the private sector would be unchanged. Treasury's interest payments net of receipts from the Federal Reserve would be unaffected.

In summary, the Federal Reserve Board strongly supports the proposals in H.R. 859 and H.R. 758 that would authorize the payment of interest on demand deposits and on balances held by depository institutions at the reserve banks, as well as increased flexibility in the setting of reserve requirements. We believe these steps would improve the efficiency of our financial sector, make a wider variety of interest-bearing accounts available to more bank customers, and better ensure the efficient conduct of monetary policy in the future.

Thank you, Mr. Chairman.

[The prepared statement of Hon. Donald L. Kohn can be found on page 65 in the appendix.]

Chairman BACHUS. Thank you.

Assistant Secretary Abernathy? We note that you have brought a former staffer of ours.

STATEMENT OF WAYNE A. ABERNATHY, ASSISTANT SECRETARY FOR FINANCIAL INSTITUTIONS, DEPARTMENT OF THE TREASURY

Mr. ABERNATHY. I needed some help in walking through these different parts of the building that I have not walked in before. It is a pleasure to have Mr. Zerzan with us as our new Deputy Assistant Secretary. We appreciate all the training you have given to him.

Chairman BACHUS. Thank you.

Mr. ABERNATHY. I now would ask that my full written statement be included in the record, and I will just provide a summary here.

Chairman Bachus, Representative Sanders, members of the subcommittee, I appreciate this opportunity to present Treasury's views on legislation repealing the prohibition on the payment of interest on business checking accounts, and permitting the payment on interest of reserve balances at depository institutions maintained with the Federal Reserve.

The Treasury Department supports permitting banks and thrifts to pay interest on business checking accounts. We are also sympathetic to the arguments in favor of permitting the Federal Reserve to pay interest on reserve balances, and we support the goals of the legislation. However, inasmuch as the potential budget impact of the provision is not included in the president's budget, we are not prepared to endorse that proposal at this time.

The prohibition on paying interest on demand deposits is a relic of the Great Depression. Many policy makers in the 1930s had the belief that limiting competition among banks would reduce bank failures, even if that resulted in fewer options and higher costs for consumers. Therefore, among other competition-limiting measures, Congress prohibited the payment of interest on demand deposits. Experience has shown that limiting consumer choice is a sub-optimal strategy for bank regulation. The market has a way of asserting itself.

In recent decades, competition for money market mutual funds worked to undermine deposit interest rate ceilings. At the beginning of the 1980s, Congress allowed banks to offer deposit accounts free of interest rate controls. Repeal of the prohibition on paying interest on business demand deposits would eliminate a needless government control. Banks could reduce the resources that they spend on procedures to get around these restrictions. Repeal would benefit the nation's small businesses by allowing them to earn a positive return on their transaction balances.

We favor the repeal of the prohibition such as that contained in the bill authored by Representative Toomey, H.R. 859, that would be effective one year after enactment. The bill introduced by Representative Kelly, H.R. 758, would authorize an increase in the allowable transactions between demand deposits and interest-bearing money market accounts. Combining these two proposals, as the House of Representatives did in the last Congress, would help ensure that banks are immediately able to offer the equivalent of interest-bearing checking accounts to their business customers before the repeal of the prohibition entered into effect. In any event, the Treasury Department continues to prefer a relatively quick repeal of the prohibition.

H.R. 758 would also allow the Federal Reserve to pay interest on reserve balances. The Federal Reserve Act requires depository institutions to maintain reserves against certain of their deposit liabilities. Institutions typically meet these requirements through vault cash and a portion of their reserves held at Federal Reserve banks. The required reserve balances do not earn interest, therefore sometimes referred to as sterile reserves. Governor Kohn presented the arguments and reasons and concerns that current limitations may affect the conduct of monetary policy. We share those concerns.

In addition, permitting the payment of interest on reserve balances would promote economic efficiency. Uncompensated reserves act as a tax upon tanks, while serving no public policy interest. To avoid this tax, banks have engaged in otherwise uneconomic activity. These costs harm the competitiveness of banks, not only with foreign institutions, but also with other financial services providers. H.R. 758 provides an offset to its budget costs by transferring a part of the Federal Reserve surplus to the treasury. Yet over time, transfers of the surplus do not result in budgetary savings. In transferring a portion of its surplus to the treasury, the Federal Reserve would reduce its portfolio of interest-earning assets. This would, in turn, decrease the Federal Reserve's future earnings and remittances to the Treasury. Budgetary receipts in the near term would increase, but only at the expense of foregone long term receipt.

In conclusion, we welcome action by the Congress to repeal prohibitions on paying interest on business checking accounts. Repeal would eliminate unnecessary restrictions on banks' ability to serve their commercial customers and would level the playing field between them and other financial services providers. Repeal would especially benefit the nation's small businesses. The ability to pay interest on reserve balances maintained at the Federal Reserve may improve the effectiveness of the tools that the Federal Reserve has to implement monetary policy. Financial system efficiency would likely improve.

Thank you for the opportunity to appear before your subcommittee, and I am prepared to answer any questions.

[The prepared statement of Wayne A. Abernathy can be found on page 47 in the appendix.]

Chairman BACHUS. Thank you.

According to our rules, we are going to call on members as they arrive. Some members have indicated they do not have questions, so I will not call on them. I am going to yield my five minutes to the first person on our side, which is Mrs. Kelly.

Mrs. KELLY. Thank you, Mr. Chairman.

I have got a couple of questions here. One of my questions is to you, Mr. Kohn. It seems to me that there has been a change in the attitude on the part of the Fed with regard to this bill. I am not sure, but it seems to me that last year when we passed this bill, the Fed was comfortable with the 24 sweeps. Now, you say you are not. That seems to me to be a change in attitude, and I would like you to explain why.

Mr. KOHN. I think the 24 sweeps are something we can live with, but do not prefer. Our preference is to go directly to paying interest on demand deposits. The 24 sweeps, which you could think of as an interim measure, as Secretary Abernathy was talking about, for the one year, does involve more avoidance techniques for the payment of interest on demand deposits. It involves setting up the sweeps. It involves maintaining them, and it just seems to us that it is much more direct, much more efficient, much less costly to go directly to the payment of interest on demand deposits. Not that we would object to the 24 MMDA sweep provided it was reservable as it is in your bill, but it does not seem the best way to go since it does involve these extra expenditures.

Mrs. KELLY. We are already doing six sweeps.

Mr. KOHN. Right.

Mrs. KELLY. What I am doing is making it 24. One of the reasons for doing that is to help encourage the banks to go ahead and give the money that is earned with the sweeps and with allowing interest on sterile reserves, give them back something that they will be giving out to their customers, so it balances out. That is the way I see the bill, and I am just interested in why that change on your part.

I also have another question, and that was brought up by my colleague Mr. Royce. It has come to my attention that the ILCs want to offer businesses NOW accounts as they are authorized by their state. I understand the Fed has some concerns about that and I want to know if you would elaborate on that. Mr. Abernathy, I would like to have you comment on that as well.

Mr. KOHN. I would be glad to elaborate, Congresswoman Kelly. The proposal as I understand it is to authorize the ILCs, the industrial loan corporations, to offer business NOW accounts. Industrial loan corporations are institutions in a select number of states, I think about a half dozen states. They differ from commercial banks and other depository institutions in two ways. One is they cannot offer demand deposits or business checking accounts. The second way is that they are not subject to the same regulations and restrictions that commercial banks are in terms of who they can affiliate with. Industrial loan corporations can affiliate with commercial organizations. For example, in Utah you have such corporations as BMW, Volvo, Gateway, other commercial corporations who own these industrial loan corporations.

So this would be mixing banking and commerce. If you allow the industrial loan corporations to offer business checking accounts, you are in effect giving them all the powers of a commercial bank. They would be equivalent to the commercial bank in terms of the services they can offer, but unlike commercial banks, unlike savings and loans, they could affiliate with commercial institutions. Moreover, banks when they affiliate even with financial institutions, are subject to certain regulatory oversight under Gramm-Leach-Bliley. That regulatory oversight is called an umbrella supervisor, so the bank holding company is subject to supervision. Even if the industrial loan corporation were to affiliate only with a financial firm—for example, Morgan Stanley owns an ILC—that would not be subject to the same regulation than if Morgan Stanley were affiliated with a bank.

Congress spent a lot of time a few years ago trying to draw these borders between financial, banking, and commercial and decided to keep commerce and banking separate. The board supported that position very strongly. The Congress also decided to subject the financial holding companies to umbrella supervision, as it happens by the Federal Reserve. That is not as important as the fact that somebody is doing it. The Federal Reserve supported that decision very strongly.

We believe that allowing ILCs to offer business checking accounts would in effect undermine the restrictions and the regulatory apparatus that Congress put into place under Gramm-Leach-Bliley.

Mrs. KELLY. Mr. Abernathy?

Mr. ABERNATHY. I think ILCs are a great example, emblematic of the strength of the constitutional federal system of government that we have. They are emblematic of the kind of variety that we have in financial institutions because of the innovation that our dual banking system allows. We have federal institutions, we have state institutions that offer different kinds of services to meet the needs of consumers, whether they are individuals or businesses.

With regard to the specific issue of whether or not demand deposit authority should be extended to ILCs, because that was not in the bills that we looked at while we prepared for this hearing, the Treasury has not examined that issue. So we would need to go back and consider that. We have been listening to some of the comments that have been raised about it. I think we want to look at it closely, but we do not have a position on it at this time.

Mrs. KELLY. Thank you.

Mr. Chairman, I wonder if I could have unanimous consent. I have testimony from a coalition of over 1,800 independent community banks that are opposed to the repeal on the ban, and I would like to have that be included.

[The following information can be found on page 91 in the appendix.]

Chairman BACHUS. Without objection.

Mrs. KELLY. Thank you.

Chairman BACHUS. That was partially as a result of Wal-Mart trying to buy an ILC in California.

At this time, Mr. Sanders?

Mr. SANDERS. Thank you, Mr. Chairman and welcome gentlemen.

Mr. Abernathy, if I could begin by asking you a couple of questions. In your judgment—I sometimes find it strange that I am the conservative around here worrying about the federal deficit, with my free-spending colleagues here not worrying so much about it. Can you give me an estimate perhaps as to how much you believe it would increase the federal deficit if the Federal Reserve were paying the interest we are discussing today? My understanding is that last year the Fed gave $24 billion to the treasury, which ultimately lowered what otherwise would have been the case with the deficit. How much less would they be giving if the Fed were paying interest on reserves?

Mr. ABERNATHY. I think the last time that the CBO examined this issue, which was a couple of years ago, they estimated that the five year cost would be somewhere in the neighborhood of about $500 million. That was, of course, with different economic assumptions. We now have a lower interest rate environment. Whether that would reduce the cost to the Federal Reserve because they are paying less, or would that mean that more reserves would be placed with the Federal Reserve—it is hard to tell.

Mr. SANDERS. Okay.

Mr. ABERNATHY. The best number we have would be the old number of about $500 million over five years.

Mr. SANDERS. Or roughly $1 billion over a ten-year period.

Mr. ABERNATHY. I think the ten-year number came closer to about $800 million, for some reason.

Mr. SANDERS. Okay. Now, we are going to hear testimony later on from Professor Auerbach, who in fact comes up with a much, much higher estimate. His estimate is I believe $16 billion over a ten-year period.

My second question is, as everybody in this room who is over 12, most people are over 12 knows, that when legislation is introduced, somebody wins and somebody loses. Usually there are beneficiaries. Probably people sleeping out on the street who are homeless are not going to gain much out of this. People who cannot afford prescription drugs are not going to be major winners out of this. Veterans who do not have health care probably are not going to get too many benefits out of this legislation. If I were to tell you that my office spoke to the Congressional Research Service and they said that the major beneficiaries would be the Bank of America, who last year made over $6.7 billion in net income; Wells Fargo, who made over $3.4 billion in net income; J.P. Morgan Chase, who made over $1.69 billion in net income; and Citigroup, which made over $14 billion in profits—would that make sense to you? Would you argue with CRS on that?

Mr. ABERNATHY. Is this with regard to the payment on Fed sterile reserves?

Mr. SANDERS. Yes.

Mr. ABERNATHY. Without looking at the numbers, I could not comment in favor or opposed to them.

Mr. SANDERS. That is what the CRS said. Does this sound to you like a reasonable proposition?

Mr. ABERNATHY. I have not looked at the numbers. I presume that if banks maintain deposits with the Federal Reserve and they are going to receive interest payments on those, they will benefit from that. Exactly which ones those are, we have not done an analysis.

Mr. SANDERS. But these are some of the largest banks in America, and everything being equal, we would expect the largest banks would be the major beneficiaries. Is that a fair assumption?

Mr. ABERNATHY. If you base it just upon the reserves, the larger the bank you are, the greater the reserves you hold in the Federal Reserve. That is correct.

Mr. SANDERS. Right. Mr. Kohn, if the CRS gave my office that information, does that make sense to you, that the Bank of America, Wells Fargo, J.P. Morgan Chase, and Citigroup might be the major beneficiaries out of this legislation? Does that sound roughly right? Mrs. Kelly's bill I am talking about, H.R. 758.

Mr. KOHN. I think the major beneficiaries out of this legislation would be the customers of the banks who are holding these sterile reserves. I think in effect that the competitive market system passes through these costs to the customers, in some cases directly for businesses holding compensating balances with banks. When banks calculate the implicit interest on the compensating balances, they directly subtract the cost of the—

Mr. SANDERS. Do you think the average person would be aware of lowering his fees? Would all that stuff really impact heavily on the ordinary working person in this country?

Mr. KOHN. I do not think it would impact heavily on anybody, because we are talking about a very small amount of money relative to the size of the banks, to the financial system. But I do think the direction would be that the average person would see slightly lower costs for services and slightly higher returns.

Mr. SANDERS. That would certainly be a nice thing to see with fees soaring all over the country, wouldn't it be, Mr. Kohn?

Mr. KOHN. Yes, it would.

Mr. SANDERS. Okay. The point that I wanted to make—first of all, I want to thank the Bush administration for not jumping on support of this, for trying to retain some credibility and concern about our deficit, because this ultimately will raise our deficit. That is number one. Number two, from what I can see, the major beneficiaries will in fact be the largest banks in this country in terms of H.R. 758.

With that, Mr. Chairman, I yield back.

Chairman BACHUS. Thank you.

Ms. Brown-Waite?

Ms. BROWN-WAITE. Thank you.

Actually, my question is for Governor Kohn. In your testimony, you indicate that one year would be a sufficient time for the phase-in of the repeal of the ban on paying interest on business demand deposits. The bill also calls for a year's period of time. Some in the banking industry have said that it should take three years. Help me to understand why you, as well as the sponsor of the bill, obviously believe that one year is sufficient time.

Mr. KOHN. I think the banks' systems are set up in such a way to accomodate that, and this bill has been debated and passed by the House for several years. None of this should come as a surprise to the banking industry. I think the banks' computer systems are set up in such a way that they should be able to implement this fairly rapidly. I think you will have some bankers you are talking to on the second panel, and you should certainly ask them, but my understanding from talking to a few bankers, is that implementing this is really not going to be a problem, and the sooner the better.

Ms. BROWN-WAITE. Thank you.

Chairman BACHUS. Thank you.

Ms. Maloney?

Mrs. MALONEY. Thank you, Mr. Chairman.

I really wanted to comment on an aspect of the bill that my dear friend and colleague Mr. LaFalce said in the last bill that we passed in the House, H.R. 1009. It contained a provision that we had worked on together that would require the Federal Reserve to perform an annual survey of checking, NOW accounts, ATM transactions and other electronic transactions. As I notice, this provision has been omitted from H.R. 758 and 859. I wanted to ask our two representatives what you think of that. Would you object to having that added back in? What is your position on that particular aspect of the law?

Mr. KOHN. The Federal Reserve would not object to having that added back in. I do think it is important for the Congress to consider carefully what the objective is and why they want to get this information, and to keep the data collection and the requirements targeted tightly to what you want and the objectives you have for this. This will keep the burden down, both on the banks and on the taxpayers through the Federal Reserve, but we have no objection to including such a study in the bill.

Mrs. MALONEY. Mr. Abernathy, do you have any objection to it?

Mr. ABERNATHY. We like to look at a lot of numbers. The more data you have, I think the better you can make policy. My experience has been there are a lot of reports that nobody looks at; a lot of data that is collected that no longer serves a particular function. While I think that the particular data points that you are suggesting might be helpful, I would like to look at it in a larger context of the data that is collected, and then maybe we could focus on the things that would be most helpful for policy, and eliminate some of the report requirements that no longer meet any needs.

Mrs. MALONEY. Thank you.

Chairman BACHUS. Mr. Toomey?

Mrs. MALONEY. Could I very briefly—I am supporting the bill, but I would like to ask Mr. Kohn, you mentioned earlier that the customers were the ones that were going to benefit with the checking account interest rates. How can we be assured that banks will pass through interest on sterile reserves to their customers in the form of higher interest rates or reduced fees? Historically, the fees paid or interest rates paid on checking accounts have been incredibly low. How can we be assured that this will be passed through to customers, as you mentioned in your dialogue?

Mr. KOHN. Right. I think there are some direct ways, as I noted in my answer to Congressman Sanders, that it would be passed through. That is, compensating balances are automatically adjusted for reserve requirements. So for at least I think that about one-third of demand deposits that are held as compensating balances, to the extent that the reserves on those earn interest, that interest would automatically flow through to the customers. I think for the rest of it, we can rely on a very rigorous competition for banking services. We have banks, we have S&Ls, we have non-banks such as money market funds offering services to customers. We have finance companies offering loans. I think a bank, offered the opportunity to gain a little bit more of an advantage in offering these services by not incurring this particular tax, would be competing very strongly with all these other financial institutions to increase market share. So I think the market system will do this.

Mr. SANDERS. Would the gentlelady yield?

Mrs. MALONEY. I just wanted to follow up on it. Consumer checking account interest rates have really severely lagged behind other market rates. A lot of my constituents tell me they do not even keep money in consumer checking accounts because of that, or very little. So do you anticipate that this will be the same with business checking accounts as well? If it is true that there is going to be such competition for their accounts, then it would be true for the consumer checking accounts too, would it not?

Mr. KOHN. I think there is competition for the accounts. The interest rates are very low in part because the Federal Reserve has very low interest rates right now.

Mrs. MALONEY. But even when it has not been the case, it has been low.

Mr. KOHN. That is right. There are a variety of accounts and a variety of ways that banks deliver services to their customers. Some of the accounts have higher interest rates on them for less active accounts; other accounts might have a lower interest rate or a zero interest rate account if you are very active, and you do not get charged for the activity in the account. So I think there are just a whole lot of dimensions along which banks compete for this. I think the competition will remain there. I think the customers will see this.

We are talking about very small amounts of money. I recognize, along with Congressman Sanders, that if you add it up over a long time, it looks like a lot of money. But $100 million or $150 million a year is going to be very hard to track through. That is less than one-tenth of one percent of the income of the bank. It would be very hard to track through. But I think it goes in that direction, and I think I would rely on the market to do it.

Mrs. MALONEY. I yield to Ranking Member Sanders, who requested the time.

Chairman BACHUS. Actually, your time is expired.

Mrs. MALONEY. My time has expired. Okay. Sorry.

Chairman BACHUS. Mr. Toomey?

Mr. TOOMEY. Thank you, Mr. Chairman.

Just to follow up on this for just a moment, maybe starting with Mr. Abernathy. Would you say that it is widely accepted, if not universally accepted, among economists that it is not unique to the banking industry, but rather to any competitive, mature industry, the structural savings that occur by and large gets passed on to the consumers of that service? Is that a generally accepted principle of economics?

Mr. ABERNATHY. That is one of the things that the marketplace does. It in essence, reaches a balance between your cost of providing a service, and the demand for your particular service.

Mr. TOOMEY. Right. So this is not a unique circumstance or a unique theoretical exercise. Any industry in which there would be a reduction of a government-imposed tax, any mature industry, anyway, that is truly competitive, we would always assume automatically pretty much that most, if not all, of that benefit would be passed on to consumers. Is that correct?

Mr. ABERNATHY. And I think it is not just theoretical. There has been study after study that has demonstrated that that is exactly what happens.

Mr. TOOMEY. Thank you.

Mr. Kohn, do you agree with that?

Mr. KOHN. Yes, I do, Congressman.

Mr. TOOMEY. Thank you.

A quick question—do either of you have any reservations whatsoever that the repeal of the prohibition on interest payments would introduce any kind of safety and soundness concern to our financial infrastructure or individual institutions, for both of you gentlemen?

Mr. ABERNATHY. I do not know of any safety and soundness concerns that would be heightened. There might be some arguments that could be made that you would be introducing some elements of stability, which would improve safety and soundness.

Mr. TOOMEY. Could you just give an example and elaborate on any improvements to safety and soundness that might result?

Mr. ABERNATHY. I think inasmuch as banks engage in certain types of uneconomic activity to try to work around these restrictions, they are doing things that are imposing unnecessary costs on them. To the degree that you can reduce costs on their activities, you improve their profitability, which is an important element of safety and soundness.

Mr. TOOMEY. Mr. Kohn, would you like to add anything to that?

Mr. KOHN. I would agree with Secretary Abernathy on that. I do not see any adverse effects on safety and soundness here. Another added benefit for small banks would be an ability to reach out for deposits, where they are currently restricted, at least on the demand deposit dimension right now. So I think it would help them manage their liquidity. They have demonstrated over a long period of time that they can live in a deregulated environment. The supervisors and examiners would be sure to be careful that they were not engaging in activities that would endanger the safety and soundness. I see no problems in that dimension.

Mr. TOOMEY. My last question, Mr. Chairman—do either of you feel that the repeal of the prohibition on interest payments would or could be fairly characterized as in some ways leveling the playing field between the small banks and the large banks?

Mr. ABERNATHY. I think particularly, large banks have been able to access a lot of these work-around products. Smaller banks cannot always access those. There is a certain cost involved with them, and the smaller your institution, the less willing you are to engage in that cost. So in many cases, you just do not compete in that field at all.

Mr. KOHN. I agree. I think not only would it help to level the playing field between small and large banks because of the costs that were just discussed, but also between banks, and small banks in particular, and non-depository institutions. Small banks are at a disadvantage when competing with Merrill Lynch or another firm offering a money market fund that can attract the transaction deposits of businesses, particularly small businesses. So I think it levels the playing field in several ways.

Mr. TOOMEY. Gentlemen, thank you very much for your testimony today and for answering my questions.

Mr. Chairman, I will yield the balance of my time.

Chairman BACHUS. Thank you. I appreciate that.

Mr. Garrett?

Mr. GARRETT. Thank you, Mr. Chairman.

Am I correct to understand that since this bill was considered a couple of years ago that the reserve levels have actually not been going down, but been slightly going up? If that is true, do we know why that is?

Mr. KOHN. That is correct, Congressman. They have gone up a little bit over the last couple of years. Primarily, it is because interest rates have declined. When market interest rates are low, people are less careful about keeping their transaction deposits down, which earn little or no interest. So as market interest rates go down, we find that demand deposits, NOW accounts and these reservable liabilities tend to go up. As a consequence, the reserves against them tend to go up. So yes, reserve balances have risen a little bit over the last few years.

I think one question which I raised in my testimony is, what happens when interest rates go back up again? I think we would see those balances go back down.

Mr. GARRETT. Just a second question, then, following maybe in some sense where Congressman Sanders was going—the differences between the large banks and the small banks. My understanding is the various small banks, their reserve requirements are small to maybe nonexistent as far as what they have to put in there and what they may actually have on hand may satisfy that. So is there a disparity, then, on how this legislation impacts upon the two size banks as far as that goes? Is there a benefit to the small bank, other than just a larger economic issue as far as the economy is concerned.

Mr. KOHN. I think it is true that structural reserve requirements is that the first $6 million or so of transactions deposits have no requirement on them. The next $37 million or so have a 3 percent requirement. Only after you get over $42 million, I think it is, that you get to the full 10 percent requirement. So the small banks tend to have smaller required reserves even relative to their size.

Having said that, there are what was to me as I looked at the tables, a surprising number of small banks that hold deposits at the Federal Reserve—hold required reserve balances at the Federal Reserve. I think partly this is because they are not large enough to afford the sweep programs that the medium and larger size banks use to get rid of even the transactions deposits that they have. So if you look at the structure of who holds the deposits, yes, obviously in dollar number is it overwhelmingly the larger institutions, but there are some very small institutions that hold deposits. The medium-size institutions that get to a critical size so they can afford these sweep programs hold very few; and then the big ones hold more. So some small institutions would benefit.

Mr. GARRETT. Okay. Thank you.

Mr. ABERNATHY. If I could add, currently, probably the number one reason why smaller institutions do not have their deposits with the Fed is because they keep it in vault cash, mainly because of the demand at ATMs. That is only a temporary phenomenon. We have all these predictions as we develop new types of ways to carry money, such as money cards, cash cards and other instruments, where it could not be long before people are not carrying lots of cash and the demand for vault cash declines. And then you could see small institutions putting more money into the Fed because they do not satisfy with their vault cash needs.

Mr. GARRETT. Thank you.

Chairman BACHUS. Thank you.

Ms. Hart?

Ms. HART. Thank you, Mr. Chairman.

I am sorry I missed most of the testimony, but I did have a couple of questions, actually one main one. I was not here 20 years ago when I understand that this issue was discussed before. At that point, I understood that opponents of paying interest on business checking accounts went to the U.S. Government archives and reviewed the minutes of the Depository Institutions Deregulation Committee—it was about 10 or 11 years ago—where they discussed permitting banks to offer interest on business checking. The Committee decided not to permit banks to engage in this activity because of negative economic impact they believed that would result. In 1983, the chairman of the Fed expressed reservations about this change.

Since that time, I am interested in knowing what has changed? Is there something specific that you can cite in the last 20 years that has changed the position of the Fed on this issue?

Mr. KOHN. I am not sure the Depository Institution Deregulation Committee had the legal power to authorize interest payment on demand deposits. I think that is part of the law. So I am not sure exactly.

Ms. HART. They must have just not recommended it then.

Mr. KOHN. That is possible. First of all, I can actually recall helping Governor Partee write testimony on this issue in 1984 or 1985. I have been at the Fed for some time. We were in favor of paying interest on reserves and interest on demand deposits.

Ms. HART. It changed from the prior couple of years, then?

Mr. KOHN. Is that right? I do not recall why it changed, but I know that we have had the same position for at least 18 years.

Ms. HART. Okay.

Mr. KOHN. I am not sure why it changed. I think right now the situation is that the banks have managed to get around a lot of the required reserves by instituting the sweeps. It is a socially wasteful and unnecessary kind of thing. It does, if it continued and intensified, make the implementation of monetary policy a little more difficult. So we can see no reason not to pay interest on required reserves. In so far as demand deposits are concerned, I think the same kind of reasoning goes. Increasingly over time, banks have found ways of, in effect, paying interest on demand deposits. It costs money to avoid the prohibition. The folks that are left behind are the small banks and the small businesses. I do not recall what the Board's reasoning might have been in 1983, but it makes no sense today.

Ms. HART. Would it be possible to try to check out what had maybe changed that opinion? We will double check to make sure that our information is good—that that was the position. I will have my staff definitely catch up with you.

Mr. KOHN. Sure. Okay.

Ms. HART. One other question, and you may have answered this in your testimony, and I apologize if this is being redundant. Has there been some effort to determine the actual impact that this will have on the economy—the changes on the current institutions that have created that system that you are saying, the elaborate method that they have now to in a backdoor way provide that interest? Has there been a study done as to what that will mean to the economy?

Mr. KOHN. As far as I know, there has not been an empirical study done, but people have given this considerable thought. The answer, I believe, is that there would be, as somebody mentioned, some winners and losers here. I think the winners would be people holding deposits, particularly the small businesses. Perhaps as interest on demand deposits rose, some services would cost a little more because they are now being subsidized by the people holding the deposits. But the overall effect, I think, would be positive for the efficiency of the economy. Services and deposits would be priced closer to their costs. The dead weight loss of all this activity to avoid the regulation would go away, and those resources—the lawyers, the accountants, the consultants, the computer programmers—could put their efforts into doing things that were more socially productive.

Ms. HART. I would not argue with that, but what about the reality that these institutions are going to have to be paying out where they have in the past were less clearly paying out, or less directly paying out. Was there any thought or consideration given to the possibility that they might have to increase other fees?

Mr. KOHN. I think they might have to increase a few of the fees to the extent that they are under-pricing services now, in order to attract, quote, "free demand deposits." So yes, some fees might rise a little, but deposit rates will rise a little, so that depositors will finally be receiving something without going through all the convolutions of avoiding the prohibition. I think net-net, it has got to be a plus because you do get rid of this dead weight loss. By avoiding the costs that the banks and the businesses now go through to avoid the regulation, the returns to depositors are going to go up more than the increase in the fees.

Mr. ABERNATHY. If I may, what we would be saying to banks is, here is one more area on which you might compete with each other. Under current law, we are telling banks, you may not compete with regard to interest on business deposits. If this became law, we would be saying, here is one more element that you can put into your competition with one another. Banks have prospered, the more that they have been subject to competition.

Ms. HART. Thank you. I yield back, Mr. Chairman.

Chairman BACHUS. Thank you.

This concludes the first panel's testimony. The first panel is discharged. If the second panel will take a seat. Two of the members wish to introduce members of the panel.

Governor Kohn, we appreciate your testimony.

Mr. KOHN. Thank you.

Chairman BACHUS. And thank you, Assistant Secretary Abernathy.

Mr. ABERNATHY. Thank you.

Chairman BACHUS. We want to welcome the second panel. At this time, I am going to recognize Mr. Toomey to introduce one of the panelists.

Mr. TOOMEY. Thank you very much, Mr. Chairman.

This is a pleasure for me today to introduce this gentleman because we have with us today before the subcommittee, Mr. Chairman, really one of the great post-war innovators—in fact, I would say a visionary—in the financial services industry. Bruce Bent is the CEO of the Reserves Fund. He is a great leader and a believer in the capitalist system, in the free enterprise system, and he is a man whose opinion I respect enormously. We have a slight difference of opinion on this particular bill. There are very few things on which we disagree in the economic realm, and as I said, I respect his opinion.

I say he is a visionary because this is a gentleman who created the first money market mutual fund back in 1971. Mutual funds today, as we all know, are enormously important, holding over $2 trillion in investments. Mr. Bent's creation has been described as one of the 10 most important financial advances of the 20th century. I would say that it is an innovation that has democratized the capital markets of America in a way that no other innovation has, making investments possible, and in fact easy and convenient for millions and millions of Americans who would never otherwise have had the opportunity to invest and be stakeholders in our economy.

So it is a great pleasure for me to welcome to our Committee today Mr. Bruce Bent. Thank you for being here.

Mr. BENT. Thank you, Congressman.

Mrs. KELLY. [Presiding.] Thank you, Mr. Toomey.

It gives us great pleasure today to welcome our second panel here today—Mr. Edwin Maus, President and Chief Executive Officer of the Laurel Savings Bank, on behalf of America's Community Bankers; Mr. Michael Stewart Menzies, Sr., the President and Chief Executive Officer of the Easton Bank and Trust Company, on behalf of the Independent Community Bankers of America; Mr. Rex Hammock, President of Hammock Publishing Company, on behalf of the National Federation of Independent Businesses; Mr. Bruce Bent, Chairman and CEO of Reserve Management Company; and Mr. Robert Auerbach, Professor at the Lyndon B. Johnson School of Public Affairs at the University of Texas.

Thank you, gentlemen. We look forward to your testimony.

Let us begin with you, Mr. Maus. Without objection, all of your written statements will be made part of the record, and you do understand the light system here. When the yellow light comes up, you can sum up your testimony. We would appreciate that.

Thank you. We will begin with you, Mr. Maus.

STATEMENT OF EDWIN R. MAUS, PRESIDENT AND CEO, LAUREL SAVINGS BANK, ON BEHALF OF AMERICA'S COMMUNITY BANKERS (ACB)

Mr. MAUS. Thank you.

Madam Chairman, Ranking Member Sanders, and members of the subcommittee, my name is Edwin Maus. I am President and Chief executive officer of Laurel Savings Bank, the $270 million savings bank located in Allison Park, Pennsylvania, which is suburban Pittsburgh. I am testifying today on behalf of America's Community Bankers. I appreciate the opportunity to testify before you on the Business Checking Freedom Act of 2003, legislation whose subject matter was first brought to the attention of Congress by ACB nearly a decade ago.

ACB strongly supports allowing banks to offer interest-bearing checking accounts, and urges the 108th Congress to pass H.R. 859.

We also support authorizing the Federal Reserve to pay interest on sterile reserves, as reflected in H.R. 758. The existing ban on interest-bearing business checking accounts is the last statutory vestige of a Depression-era law that in the words of the federal banking regulators no longer serves a public purpose.

Instead, it has created an anti-competitive business environment allowing a limited number of financial conglomerates to corner the market for cash management services. It has diminished the ability of community banks to lend to our neighbors and communities. It has prevented many small businesses from earning interest on their deposits.

Historically, the major beneficiaries of the ban on banks paying interest on business checking accounts have been a handful of large financial institutions. Unlike most community banks, those institutions have the financial resources to circumvent the prohibition by conducting so-called ″sweep″ arrangements. Sweep arrangements can be costly and cumbersome. In fact, many institutions that offer sweeps today do so only because they are not allowed to provide the more efficient service of paying interest on business checking accounts.

The interest on business checking option would also provide a stimulus for America's small businesses and the economy as a whole. Many small businesses do not earn interest on their demand accounts because they cannot afford to maintain the relatively high minimum level of deposits required to maintain a sweep account. By lifting the ban on interest-bearing checking accounts, Congress can give these small businesses the opportunity to finally earn a market rate of return on their demand deposits. For many mom and pop businesses, this could mean the margin of difference from surviving a weak economy. In addition, it would open up the entire segment of potential new deposits for community banks to lend to our neighbors and our communities.

Given the current debate in Washington over how best to revive the economy, doesn't a revenue-neutral economic stimulus tool like H.R. 859 make more sense?

ACB is pleased to be joined in our support for this legislation by a host of organizations that supports small businesses, and by both the Federal Reserve and the Treasury Department. The legislation was passed not just once, but twice by the U.S. House of Representatives during the 107th Congress, and three other times before that. We hope that the House will follow suit again this year with a strong vote in favor of this much-needed legislation.

I would also like to address the critical issue of timing. Much of the past opposition to this change in law has been camouflaged under the guise of unreasonably long transition periods. Institutions have had ample time to make any needed changes to their systems, operations and business plans. In 1980, the law authorizing banks such as Laurel Savings Bank to pay interest on consumer checking accounts took effect in a mere nine months after it was signed by the president. That was a major change for financial institutions to implement the interest on regular checking accounts back then. To make a similar change to business accounts today would be a very, very minor change for us to implement. While ACB would strongly prefer the legislation lift the ban immediately upon enactment, we believe that the one-year phase-in contained in H.R. 859 is an acceptable transition period. We strongly urge Congress not to extend this phase-in beyond one year.

I would also like to take this opportunity to express ACB's support for authorizing the Federal Reserve Board to pay interest on sterile reserves held at the Federal Reserve Bank. ACB commends Representative Kelly for introducing H.R. 758. ACB strongly endorses H.R. 859, the Business Checking Freedom Act of 2003—an important step for community banks, small businesses, and the American economy. We thank Representatives Pat Toomey and Paul Kanjorski for their sponsorship—both fellow Pennsylvanians, I might add—of this critical legislation and urge Congress to pass it immediately.

Thank you again for the opportunity to testify before this subcommittee, and I look forward to any questions you may have.

[The prepared statement of Edwin R. Maus can be found on page 79 in the appendix.]

Mrs. KELLY. Thank you, Mr. Maus.

Ms. Hart, I understand that Mr. Maus is perhaps from your district. Maybe you would like to say something.

Ms. HART. Thank you, Madam Chairwoman.

I am sorry, but I had to run out of the room to do a vote in Judiciary, or I would have actually introduced you before you gave your testimony. But I did get to hear it, and I thank you for it.

For those of you who are not familiar with this guy, he is I would say it is safe to say one of our local bank wizards. He has really been with several successful organizations, and for the past probably—what?—15 years or so, with Laurel.

Mr. MAUS. Fifteen with Laurel, yes.

Ms. HART. Fifteen with Laurel, and it has gone really from a very little tiny, you pass up the office, then there aren't anymore, and you never hear of them again, to a very well respected and much larger financial institution under his tutelage. He is also, of course, a fellow University of Pittsburgh grad, and that is a really good thing. You probably do not know how close I really live to you, Bud.

[Laughter.]

Mr. MAUS. I have a pretty good idea.

Ms. HART. We are pretty much in the same community. I think that is safe to say. I have just been watching your career, and it is a pleasure to have you here to share your wisdom with the Committee.

Thank you, Madam Chairwoman.

Mr. MAUS. Thank you.

Mrs. KELLY. Thank you, Ms. Hart.

We go now to Mr. Menzies. Is there some kind of a Pennsylvania cabal going on here, with the three of you here?

STATEMENT OF R. MICHAEL STEWART MENZIES, SR., PRESIDENT AND CEO, EASTON BANK AND TRUST CO., ON BEHALF OF INDEPENDENT COMMUNITY BANKERS OF AMERICA (ICBA)

Mr. MENZIES. Actually, I believe you are thinking of Easton, Pennsylvania, and regretfully much of my mail goes from Easton, Maryland to Easton, Pennsylvania by accident.

[Laughter.]

Madam Chairman, thank you. Madam Chairman and Ranking Member Sanders, and members of the subcommittee, I am Mike Menzies from Easton Bank and Trust in Easton, Maryland, which is known as the wild goose capital of the world. I manage a $90 million community bank in Easton, and I am also honored to be the Vice Chairman of the Independent Community Bankers of America, Federal Legislation Committee. I am pleased to appear today on behalf of our nearly 5,000 members, and share our views on payment of interest on business checking and payment of interest on deposits at the Federal Reserve.

Madam Chair, as you know, repealing the bank on paying interest on business checking accounts, has been highly debated among community banks for many years. Frankly, they remain divided. Proponents of repealing the ban argue that it would increase economic efficiency and simplicity in business practices and assist in retaining their best customers and allow them to remain competitive. They believe that the current prohibition has been competitively damaging because of brokerage firms and others who are otherwise taking core deposits away from banks that banks could use to compete for loans in their marketplace.

Opponents, on the other hand, argue that repealing the ban would squeeze their margins and they oppose the financial burden that could jeopardize their ability to compete with the bigger banks, who can afford to pay more interest. They fear the loss of business customers, and that is their concern.

Because our membership is split, we very much advocate the alternative that Congresswoman Kelly has put on the table. We believe bankers on both sides support this alternative. Under this alternative, the ban on paying interest on business checking would remain in place, but the number of allowable transactions for money market accounts would go to 24, up from the current limit of six. Banks would be allowed to conduct daily sweeps between non-interest-bearing commercial accounts and interest-bearing money market deposit accounts. This would give banks the option of paying interest on commercial checking accounts at a cost that is significantly lower than the alternative repurchase sweep account, which the Fed has referred to as incredibly inefficient—and it is.

Community banks are the primary source of credit for small businesses. Commercial depositors are looking for ways to get a return on their demand deposits. Increasing the number of allowable transactions from money market deposit accounts will allow community banks to remain competitive in providing cash management services to their commercial customers, and would enable commercial customers to earn a return on their funds and have funds readily available in a liquid deposit account. This is the only alternative that we are aware of, Mr. Chairman, that has not raised objections from banks on both sides.

Therefore, we strongly urge you and the subcommittee members to give this proposal very serious consideration. Should the prohibition be repealed, we would strongly support and urge a transition period of not less than two years or more. The transition period would be necessary to allow banks to reconfigure long-term business arrangements, certainly not the operational aspects, with commercial customers, and phase in the relative economic impact of this change, and there will be one.

Mr. Chairman, I would also like to note for the record ICBA's historical and staunchly held support for maintaining the wall between banking and commerce, which was so strongly reaffirmed in the Gramm-Leach-Bliley Act. Thus, any effort in the context of this legislation to add provisions related to industrial loan companies would raise strong opposition from our membership, since ILCs can be owned by commercial firms. As Chairman Greenspan noted, this legislation should not be the vehicle for expansion of ILC powers.

With respect to interest on sterile reserves, let me say that we certainly have no objection to this proposal. Many community banks have transaction deposits in the lower tranche, and this was mentioned before. Many communities do not have deposits at the Federal Reserve. Easton Bank and Trust does, as a matter of fact, have deposits at the Federal Reserve. We keep about $175,000 on deposit there right at this moment. But many small banks, in fact, would not be the beneficiaries of paying interest on those reserves. We do not oppose this legislation, however.

It has been my honor to testify on behalf of the community banks of the ICBA and I look forward to answering any questions you may have.

[The prepared statement of R. Michael Stewart Menzies, Sr., can be found on page 84 in the appendix.]

Chairman BACHUS. [Presiding.] Thank you, Mr. Menzies. I will say that Easton is on the eastern shore, and it is a beautiful city.

Mr. MENZIES. Yes, sir. Thank you. We are very proud of Easton.

Chairman BACHUS. Mr. Hammock?

STATEMENT OF REX HAMMOCK, PRESIDENT, HAMMOCK PUBLISHING, INC., ON BEHALF OF NATIONAL FEDERATION OF INDEPENDENT BUSINESS

Mr. HAMMOCK. Thank you. While I am not from Pennsylvania, I am a native of Alabama and went to college in your district, so I make that connection.

Chairman BACHUS. Where did you go to school?

Mr. HAMMOCK. I went to Samford in Birmingham.

Chairman BACHUS. My wife taught at Samford.

Mr. HAMMOCK. Well, good. We will compare notes afterwards.

[Laughter.]

I appreciate the chance to just summarize what my testimony is, and put the actual written testimony in the record. I appreciate the opportunity of coming this afternoon, and I thank Congressman Toomey for introducing H.R. 859. As I will tell you in a few minutes, I had an opportunity to testify about this, not even knowing it was an issue a couple of congresses ago. I feel like Chevy Chase on Groundhog's Day—you know, that sort of re-living some of these things. I have done this before.

My company was started in 1991 and had five employees, and I actually went in and opened a business checking account, and was amazed to learn that I could not earn interest on that checking account. I fortunately knew my banker, and so in a good-natured way asked him why the archaic kind of thing was in place that did not allow me to earn interest on the checking. He suggested immediately about two or three alternatives that I could do to get around not earning interest on checking. In his case, he suggested I set up a money market fund that Mr. Bent developed, which they call a liquid asset account. So I did.

However, at that time, it was few years before online banking, I had to call the bank. That was before we had a bookkeeper. I was doing it myself. The accounting professor at that university we mentioned would be shocked to know that I was doing the accounting of our business. However, I did that for several years and would have to call my banker each night to transfer funds to make sure that money was not parked in the checking account, so we could earn interest on the liquid investment account. I continued to complain about this, and every once in a while I would wake up in the middle of the night and realize that I had not transferred monies from one account to the other account. You can imagine if you had to do this with your consumer account, which you would kind of think of in the middle of the night what you have paid and what you have not paid.

Fortunately, our business has grown and a few years into it we hit a level, frankly I have forgotten what the level was, that the bank suggested a sweep account might be a better alternative. So we have that in place today. However, I do want to stress that for a small company without a financial staff—we do have a couple of people in our bookkeeping department now—but managing a sweep account is not as seamless as it appears, because I discovered that in the early days, and still the case, you have to reconcile the account every day, or the bank reconciles the sweep account every day. You receive in the mail, just like we receive on a monthly basis at home for your checking, we get that on a daily basis because of the sweep account reconciliations. So in a typical year, there would be a stack about this high of reconciliations that a typical small or medium-size business with a sweep account gets. A lot of that is done online now, but still it does add to the confusion of doing business, the reconciliations.

I will finish by saying that about four years ago, actually to the day four years ago, five days ago I was able to testify on this issue for the first time, and frankly, why is a long story. But I complained about this and somebody heard me complain and said here is your chance to say something about it. There was a story about it that appeared in a national publication and used me as the small business owner poster child, or whatever, to complain about this. I received hundreds of calls from around the country, from stockbrokers and financial planners—everyone telling me how I could solve my problem of not earning interest on my checking account. I received one yesterday—not related to that—but I received—these are small business owners, daily almost, calls or weekly at least from any number of types of financial services providers who can tell me how to solve this.

So my complaints have more to do with just common sense, and just if there is something that small business owners hate to do is park money and resources in something that they are not earning money on. If there is a way around it, they are going to get around it. If there is a legal way, even the bank is encouraging that they are going to follow that. So I just think repeal of this prohibition makes sense, and I am happy to support it on behalf of the National Federation of Independent Business and its members.

Thank you.

[The prepared statement of Rex Hammock can be found on page 60 in the appendix.]

Chairman BACHUS. Thank you.

Our next witness—Mr. Bent, Mr. Toomey, although he is sponsor of the bill, introduced Mr. Bent and invited him to come. Although he opposes the legislation, that speaks well of Mr. Toomey, and our belief that everyone has a right to be heard.

Mr. BENT. So much for democracy.

Chairman BACHUS. Thank you.

[Laughter.]

STATEMENT OF BRUCE R. BENT, SR., CHAIRMAN AND CEO, RESERVE MANAGEMENT CO.

Mr. BENT. My full statement would be filed for the record. Number one, I thank you, Chairman Bachus, for allowing me to come. I would particularly like to thank Mr. Toomey and Mrs. Kelly for raising the awareness of the Congress to exactly what is happening out there as far as the disservice to injuries to businesses as far as lacking interest on their deposits. Surprised, right?

I take great pride in the fact that I invented the money fund. It is a $2 trillion industry today, and many, many people have been helped dramatically by it. My father said to me—I get a little bit emotional—that if it were not for the money fund, and not because I was giving him money, because he would not take it, he would not have been able to survive on his post office pension, except for the interest he got on the money fund. Okay. Now, that is very good and I am very proud of it, and my father is emblematic or symptomatic of a lot of other people that are out there—tens of millions of people. In fact, I would bet the vast majority of the people in this room, one way or the other, have benefited by the money fund and the competition that it created within the banking system.

But some things happened that were not so good, and I think in order to survive, and I have survived now for over 30 years in business, one must be objective. The things that I did not like were the fact we had the collapse of the S&Ls and a cost to taxpayers of $200 billion. I attribute that to the creation of the money funds which precipitated the first crack at regulation Q, which was the elimination of interest limits on deposits. Today, we are talking about the second one.

The second thing that I did not like about it is that balances moved out of communities. They were no longer in Fishkill or Allison Park or Defiance. They came to New York, which is great because I live in New York, but I am also an American. They went to London, which I do not really like. They went to Tokyo, which I did not like. And they went to Hong Kong. And they are still there, by and large. I would say that if I got down and did an equation on it, I would say except from New York, there is a net loss to every community in the United States, from balances moving into money funds. I do not like that.

Now, that provided me with motivation, and my son, who is with me today, to create a thing called reserve return sweep. Reserve return sweep provides interest on checking balances for businesses in the community where the balance arises, so the balances stay in Allentown or Fishkill or even in Queens, where I was born, since everybody is looking for a hook here today—Jamaica Hospital.

[Laughter.]

Mrs. MALONEY. In my district.

Mr. BENT. Thank you.

And I think that that is critical. This reserve return sweep I am very proud of. I am so proud of it and so objective about it that I feel that the vast majority of balances that are in money funds will switch over to this new product. It is safe. It is simple. It is controlled and it is a cost-effective way of paying interest on checking. There is no limitation on the size of the people who could benefit from it. Right now, we have about 40 banks in our process and we have another 40 banks that are coming on right now. We have banks with as low as or as little as $300,000 with this process, and we have banks that have as much as $200 million in the process. So it is broad-based and it serves the people.

I have been very concerned about this bill because of the fiat elimination of the second half of regulation Q, i.e. interest on balances. I am concerned that this again creates tumult in the marketplace for the cataclysmic introduction of interest on balances. Whether it is interest on balances or 24 transactions, it is instantaneous. Twenty-four transactions is a euphemism. That means it is happening today, because the banks will move the balances into the money market account where they do not have to pay any reserves on it, and it will be implemented instantly. So there is no transition period, and to discuss that it is, is spurious totally. It will not happen. So 24 transactions do not exist. It is effective instantaneously.

I am very, very pleased at the effectiveness of this product. The problems that these gentlemen have had are all addressed, be it banks or my capitalist next to me—the bank is a capitalist, too. I think that what it does is avoid the crisis potential that would have if we simply made a fiat change in paying interest.

Right now, our economy has lots of problems. We need hugs and kisses, not shocks, and I think the implementation of this bill could be a major shock for our economy.

Thank you.

[The prepared statement of Bruce R. Bent, Sr., can be found on page 56 in the appendix.]

Chairman BACHUS. Thank you.

Let me say this, when you mentioned your dad, I think that is a generational thing, and I am now in your generation when we talk about our dads, if we have lost them or we are losing them, it is hard to do so without emotion. That is something that the younger generation sometimes does not understand, but I identify too well with it.

Mr. BENT. Thank you.

Chairman BACHUS. Mr. Auerbach, we want to welcome you back, as a staffer.

Mr. AUERBACH. Thank you.

Chairman BACHUS. You may want to recognize Mr. Auerbach.

Mr. SANDERS. We do welcome you back and thank you for being here. Mr. Auerbach today is a Professor of Public Affairs at the Lyndon B. Johnson School of Public Affairs at the University of Texas. We thank you very much for joining us.

STATEMENT OF ROBERT AUERBACH, PROFESSOR, LYNDON B. JOHNSON SCHOOL OF PUBLIC AFFAIRS, UNIVERSITY OF TEXAS

Mr. AUERBACH. Thank you, Mr. Chairman, and the wonderful members of this Committee who I had the privilege of working with.

I want to take you back to 1980—I had two different stints here—when I was working with Henry Reuss and there was chaos in the banking system, 16.5 percent reserves on deposits. You had Tom Ridge on the Committee, Henry Hyde, Charles Grassley—we were all very upset about this huge amount of reserves. These banks said they would all leave the Federal Reserve. So we lowered the reserve requirement to 12 percent. The Fed was screaming as they always do—we will lose control of the money supply without these required reserves; you cannot do it. Well, they did not. In fact, as soon as we finally settled at 12 percent, the Fed lowered it further to 10 percent.

Then the Fed initiated something that I am very surprised did not come up today. We put in the Monetary Control Act supplemental reserve requirements. The Fed has the power to raise in time of national emergency, which they declare, they have the power to raise reserve requirements by four percentage points and to pay interest on the reserves. That is in the legislation. Why would not the Fed mention that? If they are worried about money control, they just put in supplemental reserves and pay interest on it. How come that has been left out of this? Curious. We also raised the insurance rates in order to get the banking groups in town here to support the bill. They raised it from $40,000 insurance to $100,000—a tremendous gift to the small banks that they received at that time.

Now let me just—I am jumping over because if I am talking against the wonderful bill that some of you have, I have got two suggestions. Later you can ask me, and I think it will improve the bill, but I will leave those to the end—something that Don Kohn, wonderful Governor—we used to work together at the Fed; he is a personal friend—told me, I think it would make the bill a bit better.

What happened to the reserves in the system? The reserves are tremendous in the Federal Reserve system today. There is are $76 billion worth of reserves sitting there. There is only, as of February, about $9.6 billion held at the Fed. So I think it is rather irrelevant. It is a very small distortion for the system to start paying interest on those reserves. Let me tell you why. If you start paying interest on reserves, the thing that is going to happen is there will be more reserves. I learned this in my studies under Milton Friedman at the University of Chicago. You subsidize something, you are going to get more of them.

Now, Don Kohn had in his testimony $28 billion that they had. I told him, no, if you look on the chart I have here, they had in the early 1990s $35 billion at the Fed. But a lot of these banks took the cash, which they can use to meet the reserve requirements, and they put them in ATMs. Remember, as Governor Kohn said, if you have less than $41 million, the small banks, the reserve requirement is only 3 percent. Under $5 million, it is zero. So small banks are not going to benefit from interest on reserves. They will be injured.

So how many more reserves will flow in? First of all, what is the interest that the Fed will pay? Well, I picked the federal funds rate and I drew a chart of it. For the last 30 years, up until March 2000 when the bubble broke, we started to crash, the average federal funds rate has been 7.7 percent. That would kind of be a worst—and remember in 1980 the federal funds rate was over 20 percent, when Ronald Reagan came into power. I worked in the Reagan administration for the first year, in the Treasury. It was a mess.

Chairman BACHUS. Wasn't that when Carter was in office?

Mr. AUERBACH. Carter was in—it happened right at the transition. I was with the Committee and then I went over in—you are right.

[Laughter.]

Chairman BACHUS. That was just so big, I just could not—

[Laughter.]

Mr. AUERBACH. You are absolutely right. But we had that problem, you know, with the double-dip recession and we had a terrific problem.

So I would say, look, let's not—say, 7.7 percent will be—this is—for 30 years the average federal funds rate was 7.7 percent. Let's not make a worst-case scenario. Let's just say 5 percent. We do not want to take the current distress period. I do not expect the interest rates to be at 1930 Depression levels for a while. I would expect if you pay more for something, you are going to get more. I was telling Don Kohn, I think it will probably go up to about $20 billion. So at 5 percent, you would be giving an annuity of $1 billion a year to the banks. That annuity, if you discount it at 6 percent, is worth—a guaranteed annuity from the government is worth about $16.7 billion, using a 6 percent rate of discount. This is a huge payment to the banks, and who would get it? Primarily the large banks which have a lot of reserves.

Let me just answer one other question. Would it be passed through, as Don Kohn said? Would it be passed through to the depositors? The truth is, the banks have a system of parallel pricing. They have a national prime rate. That is a whole other story. The Fed's own research in 1980 when we were fighting about this shows that they have the same prime rate all over the country and they practice price discrimination. The larger borrowers can get loans at money market rates. The same thing would occur. You are not going to pass through all this. The main benefit—I do not have time to go into the way banks price—the main benefit would be the stockholders of the big banks. They get a very respectable increase.

One other last point—Bruce Vento, the late Bruce Vento, in his last period here, he collected information on the concentration of banking in the United States. It was sent to him by the Federal Reserve. I had a chance to look at it. Although we have got a lot of small banks out there, the Federal Reserve has let the concentration of banking in the metropolitan areas heighten. You have got places like New Orleans where a couple of banks control much of the deposits in there. You do not have a model of free competition. It does not exist in the large urban areas. Banks will all charge the same price. What do they charge now? What do they pay—.02 percent on an account unless you are one of the lucky people that gets in on the sweep accounts.

So I have two things that would make the interest paying thing, but my time is up. If you want to ask me—I am sorry I talked past my time.

[The prepared statement of Robert Auerbach can be found on page 51 in the appendix.]

Chairman BACHUS. Thank you.

Mr. Gonzalez would have probably calmed you down.

[Laughter.]

Ms. Kelly, I am going to yield my time to you.

Mrs. KELLY. Does that mean that I get no time of my own?

Chairman BACHUS. No, you get no time—or I will yield 2.5 minutes to you and 2.5 minutes to Mr. Toomey.

[Laughter.]

Mrs. KELLY. I want to make one remark to you, Mr. Auerbach. I am not looking and I do not think Mr. Toomey is looking at this legislation as a tool for social engineering, regarding your remarks that the large banks get the most on the reserves. Of course, they do, because they put the most in. So I think my real question here is to you, Mr. Menzies. I asked the earlier panel to comment on the proposal to allow the ILCs to offer business NOW accounts, as they are authorized to, some of them by their state. Would you be willing to discuss the ICBA's position on this proposal?

Mr. MENZIES. I do not profess to be an expert with respect to ILCs, but I believe the basic issue is that if it walks, acts and talked like a duck, it ought to be a duck and not something else. If they are going to act like a bank and be like a bank, then they should be operating and regulated like a bank. Our primary objective is to adhere to the Gramm-Leach-Bliley spirit of separating banking and commerce, and not allowing this effort to do an end-run on that objective of separating banking and commerce. So that is the number one position, I believe.

The other position that was referenced by the Federal Reserve and by Chairman Greenspan is that if they are going to be a bank, then have them subject to the Bank Holding Company Act and have them subject to the Federal Reserve regulations, and have them subject to all of the laws associated with banking and not be an exclusive, limited-purpose, limited-objective financial institution.

Mrs. KELLY. Mr. Menzies, I wonder if you would be willing to talk—you say you are not an expert on this—would you be willing to discuss this in a letter and get a letter back to us?

Mr. MENZIES. Absolutely. It would be our honor. We would be happy to get together more information on this to you.

[The following information can be found on page 133 in the appendix.]

Mrs. KELLY. Thank you very much.

I am going to yield back and hope that you will give me my own time.

Chairman BACHUS. I do not think we stopped the clock, so I do not know how much time you have—I think about a minute left.

Mr. TOOMEY. Thank you, Mr. Chairman.

My first question-comment is for Mr. Auerbach. Do you agree that the use of money has an inherent value, or to put it differently, that money has a time value?

Mr. AUERBACH. The time value of money—do you mean is the interest rate?

Mr. TOOMEY. Yes, and that money has an inherent time value, that it is standard; that an individual or an institution that has use of money pays for that use of money, and we call that interest, and that is a norm.

Mr. AUERBACH. Right.

Mr. TOOMEY. I reject the idea that to pay interest on bank sterile reserves is a subsidy. I do not think when a corporation borrows money from a bank that it is subsidizing that bank. I think it is simply paying the going rate for the use of the bank's money. I think when a consumer borrows money to finance a mortgage, I do not think the consumer is subsidizing the bank. I think it is just paying for the use of the bank's money.

Similarly, I think when banks have reserves with the government, if the government refuses to pay interest on that, in fact that is a tax because it is choosing not to pay the market value for the use of that money. Isn't that a fair way to characterize it?

Mr. AUERBACH. I agree with you 100 percent, but let me just answer this way. At present, there is hardly any money in those accounts. It is a very small distortion. But if the interest rates rise again, as they have throughout the last 30 years, you are going to be paying huge amounts of money and you will have money transferring—you are a good free enterprise Congressman. You know what is going to happen. You are going to have money transferred into those accounts. What would happen in 1980 when they were paying 21 percent federal funds?

Mr. TOOMEY. But of course the rate that they were paying will be in line with current market conditions. So there will be other available alternatives that also pay high rates if interest rates generally go up. If the Federal Reserve is paying 21 percent, God forbid, at some point in the future, there will be other interest rates available, other vehicles available. It would not be that we would have a current interest rate environment and the Federal Reserve would be the only one paying.

Mr. AUERBACH. But if the government is sending out a $1 billion a year to the banks, that is what I find is a subsidy.

Mrs. KELLY. Will the gentleman yield on that point?

Mr. TOOMEY. I would just like to go back. I will yield in a second.

Chairman BACHUS. Your time is just about up.

Mr. TOOMEY. I would just say again, I think you just said what I thought you agreed was not the case. I just do not think that it is a subsidy if the government is paying a market rate for the use of funds that belong to someone else.

Mrs. KELLY. Your point, Mr. Auerbach—

Chairman BACHUS. I think we went over. I am not sure where the clock is—we cannot figure out what happened to the clock, but I am sure we are over.

Mr. Sanders?

Mr. SANDERS. I am not quite sure what Mrs. Kelly meant when she talked about social engineering, but what I do know is that if the federal deficit goes higher, there are at least some people who use that as an excuse to cut back on Medicare, Medicaid, education, infrastructure improvement, affordable housing. So I worry about a deficit being very high, because it means many low income and middle class workers are going to see cutbacks in programs which are very often of great necessity to them.

Mr. Auerbach, if I could ask you, what is your guess if the Fed were paying interest on reserves, what impact would that have on the federal deficit, say, over a 10-year period?

Mr. AUERBACH. On this point, I agree with Governor Kohn that the surplus is a meaningless change from one bank account to another. The federal deficit properly estimated would decline by the amount of money paid to the banks—about $1 billion a year.

Mr. SANDERS. The federal deficit would—

Mr. AUERBACH. Would get bigger—excuse me.

Mr. SANDERS. By about $1 billion a year.

Mr. AUERBACH. Right.

Mr. SANDERS. So over a 10-year period—

Mr. AUERBACH. But that is not a worst-case scenario. If interest rates went over 5 percent, it could easily get—

Mr. SANDERS. I recognize that. No one can predict when interest rates will go up, but you are guessing that it might increase the deficit, if you like, by $10 billion over a 10-year period. Is that what you are saying?

Mr. AUERBACH. It has to. Yes.

Mr. SANDERS. Again, I do not know what Mrs. Kelly was referring to in terms of social engineering, but if the deficit goes up by $10 billion, I suspect there are some people who would cut back on Medicaid, Medicare, affordable housing. That concerns me very much.

Mr. Auerbach, and then I will ask the same questions to the other members. I think you touched on this. Again, in your judgment, I am hearing that the major beneficiaries of this would be some of the largest banks in America. I do not think there is much doubt about that. Yes, they are the ones who have the money, and they are the ones who would benefit. So we are talking about—and again, I appreciate no one can make an exact prediction, it is a guess game—but you are suggesting a $10 billion increase in the deficit over a 10-year period, with the primary beneficiaries of that being the largest banks in America. I, for one, have an objection to that, but I would be happy to ask other distinguished members of the Committee if they would—is anybody up here? Any good conservatives worried about increasing the deficit, or am I the only conservative who holds that? Mr. Menzies?

Mr. MENZIES. I am very worried about increasing the deficit. In that regard, I believe that with all due respect to the professor's position, it presumes that banks are not reinvesting those reserves in their depositors, in their borrowers, in those receiving dividends from the banks.

Mr. SANDERS. But what does that have to do with it? I understand that, but what does that have to do with the deficit?

Mr. MENZIES. I believe in our system, the more we increase our economy by increasing money flowing through our economy, the prosperity of our system.

Mr. SANDERS. Trickle down.

Mr. MENZIES. Unless you presume that all of the money goes into the salaries of executives, in 401(k) plans where the tax is deferred.

Mr. SANDERS. I do appreciate that, but you are not denying that the immediate effect—what you are saying is it stimulates—

Mr. MENZIES. But I believe that the professor said that the economic impact was exactly the interest that was paid by the Federal Reserve to the banks. I am not an economist by trade, but I question that business model.

Mr. SANDERS. That is kind of like when we give hundreds of billions of dollars in tax breaks to the richest 1 percent in the long run really is going to help us all.

Anybody else want to comment on that? Mr. Maus?

Mr. MAUS. I do not know that it is a fair assumption to say that whatever amount would be paid out by the Federal Reserve to banks on sterile reserves would equate to a specific number, because in doing so there is an assumption being made that the amounts that the Federal Reserve are turning back into the treasury, they would do nothing else to increase that amount. So it is not just that we are going to pay out all of this money and they are not going to do anything else in their structure to either increase income, decrease expenses or whatever, to offset some of the money that they would be paying out on the sterile reserves.

Mr. SANDERS. Thank you.

That is about it for me. Thank you, Mr. Chairman.

Chairman BACHUS. Ms. Kelly?

Mrs. KELLY. I simply want to go back to what Mr. Auerbach said. You know, you talked about the money being reduced that is in the reserve accounts. I think it is fair to say that one of the reasons that money has been reduced is the banks can make more money by putting it in the ATMs. So if there is interest paid on the reserves, some of those reserves, yes, there might accrue a larger amount in there, which would not necessarily be a bad thing, given the volatility of the economy. Isn't that correct?

Mr. AUERBACH. You are absolutely right. What would happen with the payment of reserves is that many, many banks would give less services through ATMs and put them in the Fed.

Mrs. KELLY. You cannot assume that they would give less services. It just means that they may perhaps pack less money into those ATMs, but that does not necessarily mean they are going to reduce their services in order to get some sort of interest on their sterile reserves.

Mr. AUERBACH. Instead of having $30,000 in, they might put $20,000 and they would run out maybe on the weekends, because there would be a—

Mrs. KELLY. You cannot project that. I am sorry, sir, I do not agree with that. I think they are smarter than that. I think they can figure out their weekends.

Mr. AUERBACH. If you are paying for them to take money and invest it with the Federal Reserve, then they will have less money in their vault cash in the ATMs.

Mrs. KELLY. Perhaps, but they may find other ways to work with their money. That is what banks do. I think that we have had for a very long period of time much discussion, as we have heard today, over perhaps 20 years about the possibility of allowing those banks to earn something on the sterile reserves. It is not bad monetary policy. Maybe I have just a greater trust in the bankers than you do.

I yield back.

Chairman BACHUS. Thank you.

Let me ask one question. Mr. Menzies, your organization is neutral on paying interest on business checking accounts?

Mr. MENZIES. The position of the organization is that we recommend the 24 transaction a month in a money market account as an alternative to interest on checking. That is the position of the divided interest. That is a preferential solution to, frankly, the archaic law that you all are dealing with.

Chairman BACHUS. Let me point out something in Mr. Maus's testimony. This is actually for Mr. Menzies, but it is your testimony, which I agree with. Mr. Maus points out that repealing the current prohibition would not force banks to pay interest on business checking accounts. It just gives them the right to do that.

Mr. MENZIES. I totally agree with that, and there is a lot of logic to that statement. The counter issue, as opposed to argument, is that the money market account traditionally is a much more stable account. By definition, it is a savings or it is an investment account. It is an account in which monies reside for hopefully a longer period of time than a, quote, "demand deposit account", which is subject to demand.

The question was asked a while ago about 1983, why it is that we were not paying interest on commercial accounts. I recall talking to the regulators about that question and was told, well, it is because if commercial accounts received interest, they may chase the highest rates and it would volatize possibly the core deposit base of the banking industry and cause corporations to move their money quickly to the next highest rate, and those deposits are used to make loans, and we do not wish to volatize the liability side of the bank, which generates loans to small businesses, so let's not pay them interest. That, as I recall, was an excuse or was an argument.

Thanks to Mr. Bent, we have entered into the next century with respect to paying interest on liquid funds. The argument to consider the 24 transaction sweep is that it may not be quite as volatile as the demand deposit account, which is a checkable account.

True, you can write 24 checks, I guess, under the current legislation or do 24 transfers, so there clearly is a level of volatility. But you are not depositing 80 or 90 checks per day in that money market account if it is a sweep account. You are putting those in your checking account. There may be merit with respect to the safety and soundness question of whether the money market account is a more stable solution than interest on demand deposits. I do not truly know the economic answer to that question.

Chairman BACHUS. What this legislation does, Mr. Toomey's legislation, is just give the banks a choice to be able to offer those services to their customers if they so choose. It is just another choice.

Mr. MENZIES. And banks should be grown up enough to price their products relative to the risk and relative to the cost of those transactions. It is a true statement.

Chairman BACHUS. I think in our free market society, you would agree that that is just one more choice for the consumer?

Mr. MENZIES. Absolutely.

Chairman BACHUS. Mr. Bent?

Mr. BENT. In 1980, we gave savings and loan associations the opportunity to pay more than 5.25 percent. They leaped at it because it was not an option, it was a requirement because it was in a competitive marketplace. Both the representative of the Federal Reserve and the Treasury both talk about competition going in this. Believe me, I am in favor of competition, but I am not in favor of disrupting our banking system, particularly in this economy.

As far as the money market account being more stable, when you have 24 transactions in a money market—maybe I should not tell the banks how to figure out, but I will figure it out for them—all the checks go in and out of the DDA account; the excess cash swings over to the money market account; it stays there. At the end of the day, the bank computer, because this is not people-intensive, tells the MMDA account, the money market account, how much money it has to send over to the DDA account, the checking account, to pay the checks. So it is instantly full of liquid funds. It is an active account. It is not a savings account. It is not doing what was contemplated when the MMDA account was originally created back in 1982. It is definitely not.

Chairman BACHUS. Of course, the savings and loans, that is an issue we have discussed ever since I have been here in 1992. The main factor was they were borrowing short and lending long, and got caught in the squeeze.

Mr. BENT. But why? To compete. If they could not pay more than 5.25 percent, they would have not gone through that exercise.

Chairman BACHUS. That is right, but what I am saying is banks are in a different situation. I do not see how this being able to offer interest rates, low interest rates—

Mr. BENT. It is low interest rates today, but if we go back to the Carter Administration—

Chairman BACHUS. In this case, you are lending on a short-term basis.

Mr. BENT. I am sorry?

Chairman BACHUS. You are just paying interest on a short-term basis.

Mr. BENT. But in order to be able to pay interest on deposits, you have to invest it someplace.

Chairman BACHUS. But you would not have it in 30-year mortgages.

Mr. BENT. If you go back to in the 1980s, the S&Ls could have put their money out in the marketplace, theoretically. They could have gone into 30-year treasuries and gotten 17 percent. They could have gotten T-bills, which were even more than that. But they did not. They went out and bought long-term mortgages and that is where their exposure was. Fear and greed, fear and greed—they got the greed.

Chairman BACHUS. This concludes our hearing. No, I am sorry. We have two unanimous consent requests.

Mrs. MALONEY. I have one. I ask unanimous consent that a brief statement from the Commissioner of Utah's Department of Financial Institutions regarding the subject matter of today's hearing be made part of the hearing record. I hope that you will accept that unanimous consent request.

Chairman BACHUS. It is from the ILC?

Mrs. MALONEY. It is from the Commissioner of Utah's Department of Financial Institutions.

Chairman BACHUS. On the industrial loan company?

Mrs. MALONEY. He did not say what he wanted to talk about.

Chairman BACHUS. Yes.

[The following information can be found on page 128 in the appendix.]

Mrs. MALONEY. Anyway, my first question is to the NFIB.

Chairman BACHUS. I am sorry. You had not been recognized?

Mrs. MALONEY. No.

Chairman BACHUS. I apologize. This does not conclude.

[Laughter.]

Mrs. MALONEY. One of the often-cited reasons for allowing the payment of interest on sterile reserves is that small businesses do not have access to these sweep accounts. How often do you hear this complaint? Is that a major concern of small businesses?

Mr. MENZIES. I know in my case, and I can only speak from my case, that I did not have access to a sweep account until we got to a certain size. It is off the radar screen of, frankly, most small business owners. But there are work-arounds that almost any small business owner will do, that are quite legal. They are usually suggested by the bank.

Mrs. MALONEY. Really. Well, the Fed has argued that it needs additional flexibility in their reserve requirements for the sake of setting monetary policy. I would like to ask any of the members of the panel to comment if they would like, generally, on the Fed's reasoning that the payment of interest on sterile reserves and the elimination of the floor on reserve requirements will enhance its ability to target monetary policy. If anyone would like to comment on that—anyone?

Mr. AUERBACH. That is an argument they have used for many years whenever we have lowered reserve requirements. I do not think it has any substance. If they are worried about control of the federal funds rate or the money supply, they have supplemental reserve requirements that pay interest on the reserves that they could put in at any time. We wrote that into the Monetary Control Act. I do not know, has someone taken that out of the bill? It is already there. I think at present, and I talked to Governor Kohn about this, they have had no trouble controlling the federal funds rate. It is not an issue at present. He was talking about, if something happened, maybe they would have trouble in the future.

Mrs. MALONEY. Anyone else like to comment on it?

Mr. BENT. I would like to go back to the question that you addressed to Mr. Hammock, as far as the availability of sweeps to small businesses. I would be very pleased to set up a sweep arrangement for Hammock Publishing, and every member of the NFIB, which I think is something like 600,000, so that they simply had one account on the bank and everything happened automatically through reserve return sweep, and you would get interest on your balances.

Mr. HAMMOCK. I would like to have that option, or the option to just not to park my money in a checking account. That would be great. If you had a product that could compete and I would like, that is great. That is all I think that small business owners want, is just something that is logical and that anyone can compete for.

Mrs. MALONEY. Thank you.

Thank you, Mr. Chairman.

Chairman BACHUS. Ms. Kelly?

Mrs. KELLY. Thank you, Mr. Chairman.

I have a unanimous consent request. When Mr. Greenspan testified before our Committee a few weeks ago, he testified about the NOW accounts. I have here a letter actually sent on April 2, 2001, that reiterates that kind of testimony, that I would like to put in the record.

Chairman BACHUS. Without objection.

[The following information can be found on page 89 in the appendix.]

Mrs. KELLY. Thank you.

Chairman BACHUS. Are there any more requests for time or for consent requests? If not, the hearing is concluded.

[Whereupon, at 4:14 p.m., the subcommittee was adjourned.]

A P P E N D I X

March 5, 2003

Opening Statement
Chairman Michael G. Oxley
House Committee on Financial Services

Opening Statement: The "Business Checking Freedom Act of 2003", H.R. 758 and H.R. 859

We meet today to discuss two pieces of legislation that comprise the "Business Checking Freedom Act of 2003." The two bills, H.R. 758, sponsored by Rep. Sue Kelly, and H.R. 859, sponsored by Rep. Pat Toomey, have passed the House on numerous occasions in previous Congresses. I must commend Ms. Kelly and Mr. Toomey for their persistence on this issue. I am confident that this year we will finally get these bills to the President's desk.

H.R. 758 and 859 will repeal two of the most antiquated banking laws that remain on the books today, the ban on banks from paying interest on business checking accounts and the ban on the Federal Reserve from paying interest on so-called "sterile" reserves.

Since 1933, banks have been unable to pay interest on business checking accounts. The law was originally intended to ensure that larger banks did not use higher interest payments to lure deposits away from small, rural banks to fund stock market speculation. While at the time this law may have been necessary, in the year 2003 it is a relic of a financial world that no longer exists.

There is little doubt that now, with the current complex and competitive nature of the financial services industry, all depository institutions would benefit from the ability to offer business checking accounts and are more than able to manage the potential risks involved.

In fact, as the financial services industry grows more competitive and more complex, antiquated laws that limit the competitive capacities of financial institutions only harm the customer's ability to find appropriate financial solutions.

The Federal Reserve's lack of authority to pay interest on sterile reserves falls squarely in the antiquated category as well. If, under the Federal Reserve Act, banks, thrifts, and credit unions are required to hold funds against transaction accounts, then the Federal Reserve should be required to pay interest on those reserve balances. The Fed itself is the strongest proponent of legislation to remove this limitation, as it has potential consequences for its ability to conduct monetary policy.

H.R. 758 will allow the Federal Reserve to pay interest on the reserves that depository institutions maintain at the Federal Reserve and will eliminate the statutory ratios that currently apply to those reserves.

Today, we will hear testimony from a number of witnesses that will give committee members the opportunity to ask experts about the need for this legislation. I look forward to their testimony today.

REP. SPENCER BACHUS
OPENING STATEMENT FOR HEARING ON H.R. 758, THE BUSINESS CHECKING FREEDOM ACT AND H.R. 859, THE BUSINESS CHECKING FREEDOM ACT

This hearing of the Subcommittee on Financial Institutions and Consumer Credit will come to order.

The Subcommittee meets today to consider two bills introduced by highly respected Members of the Subcommittee – H.R. 758, the Business Checking Freedom Act introduced by Mrs. Kelly and Mrs. Maloney, and H.R. 859, the Business Checking Freedom Act, which Mr. Toomey has introduced along with Mr. Kanjorski.

Both bills represent important "next steps" for this Committee as we continue the work of modernizing our Nation's financial system. For as historic an accomplishment as the Gramm-Leach-Bliley Act was, much remains to be done to bring our financial services industry into the 21st century.

Current law does not permit depository institutions to pay interest on business checking accounts, nor does it allow the Federal Reserve to pay interest to depository institutions on reserve balances that they are required to maintain at the Federal Reserve. Neither of these statutory restrictions makes much sense in a highly competitive financial marketplace where banks must compete for deposits not merely against each other, but against a host of non-bank financial firms offering a wide range of interest-bearing products.

H.R. 758, Mrs. Kelly's bill, authorizes the Federal Reserve to pay interest on the reserves that depository institutions maintain at Federal Reserve Banks. The legislation also eliminates the minimum statutory ratios that currently apply to such reserves, thereby giving the Federal Reserve Board greater flexibility in setting reserve requirements. Finally, the bill increases the number of allowable transfers from money market deposit accounts to 24 per month, from the current limit of six, enabling depository institutions to sweep funds between non-interest-bearing commercial checking accounts and interest-bearing accounts on a daily basis.

Mr. Toomey's bill, H.R. 859, is a straightforward piece of legislation that repeals the prohibition on the payment of interest on business demand deposits, effective one year after the date of enactment.

Last year, the full Committee favorably reported bills substantially similar to the proposals we will consider today. Indeed, legislation repealing the prohibition on interest payments on business checking accounts passed the House twice during the 107th Congress, but died in the Senate.

It would be my hope that we could move expeditiously in this Congress to complete the unfinished business of the last, by holding a hearing on these common-sense measures today and sending them on to the full Committee for its consideration next week.

Let me close by extending a warm welcome to Federal Reserve Governor Donald Kohn and Treasury Assistant Secretary of Financial Institutions Wayne Abernathy, both of whom will be testifying before this Committee for the first time. We look forward to hearing your testimony today and working with you in the future.

Let me now recognize the ranking Member, Mr. Sanders, for any opening statement he might wish to make.

March 5, 2003

Opening Statement by Congressman Paul E. Gillmor
House Financial Services Committee
Subcomittee on Financial Institutions and Consumer Credit Hearing on the "Business Checking Freedom Act of 2003"

Thank you, Mr. Chairman, for holding this hearing today. I am interested to learn more regarding both HR 859 and HR 758.

The question of whether we should repeal the prohibition on the payment of interest on business checking accounts has been the subject of considerable debate for more than two decades. During the 107th Congress, this committee approved similar legislation to HR 859 and I was happy to support the bill.

I do believe that ending this prohibition will allow small banks to better compete for commercial deposits with large institutions generally more equipped to offer money market demand accounts and other interest-bearing investment vehicles. However, I did not consider inconsequential the concerns of many independent bankers, that their business costs would rise due to additional interest and portfolio restructuring expenses.

Specifically, I look forward to learning more regarding the impact of HR 758, which would allow depository institutions to "sweep" funds from business checking accounts to interest-bearing accounts 24 times per month, an increase from the six already authorized. I am not convinced of the necessity of this increase and will be paying close attention to today's debate on this issue.

Again, I thank you, Mr. Chairman, for bringing us together here today and I look forward to an informative session.

Opening Statement
Congressman Ed Royce (CA-40)
5 March 2003
Business Checking Freedom Act of 2003

Thank you, Mr Chairman, for calling this hearing to assess HR 758 and HR 859, which together comprise the Business Checking Freedom Act of 2003. I appreciate the Chairman's persistence in pursuing the passage of this legislation, which passed the House last year unanimously but was neglected by the Senate.

This legislation continues the work begun by the 1999 passage of the Gramm-Leach-Bliley Act by further repealing outdated, Depression-era constraints on the American Financial Services industry to help it to remain globally competitive in the 21st century. First, the language in this bill originally sponsored by Mr Toomey would repeal the unnecessary prohibition on the payment of interest on business checking accounts. By phasing this repeal in over a one-year period, it will also permit depository institutions that already offer sweep accounts and other sophisticated products designed to reward current *de facto* business checking customers to alter their pricing policies and unwind existing arrangements.

Second, the portion of this legislation originally authored by Ms Kelly would authorize the Federal Reserve to pay interest on reserves that banks, thrifts, and credit unions are required to hold at Federal Reserve banks against transaction accounts held by customers of those institutions. It would also authorize depository institutions to "sweep" funds from business checking accounts to interest-bearing accounts 24 times-per-month, an increase on the current six-per-month limit. By allowing the Federal Reserve to pay interest on institutions' non-performing assets, these institutions will be more inclined to keep reserves at the Fed, whose resources have dwindled in recent years creating potentially serious implications for the Fed's ability to oversee and manage a stable, effective monetary policy.

While I do believe that this legislation is long overdue and necessary, I must qualify my support for it somewhat. I believe that by not providing interest on business checking parity to Industrial Loan Companies, many of which are chartered in my home state of California, this legislation subjects these well-regulated institutions at an unfair competitive disadvantage in the financial services marketplace. I strongly believe that this oversight must be addressed before the Committee sends this bill to the House floor for a final vote on its passage.

I thank the Chairman again for this opportunity to make known my opinion on this legislation, and I look forward to hearing our witness' testimony today. I yield back the balance of my time.

Opening Statement
Congressman Patrick Toomey
March 5, 2003
Business Checking Freedom Act of 2003
Subcommittee on Financial Institutions and Consumer Credit

Thank you Mr. Chairman for holding this hearing on the Business Checking Freedom Act - H.R. 859 and H.R. 758 - and putting these issues on the legislative fast track.

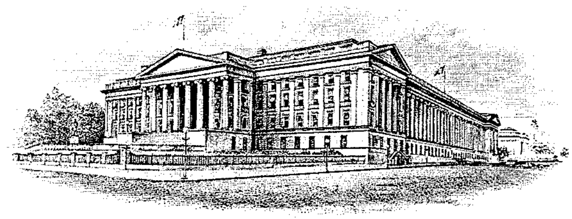
H.R. 859 is a very straightforward bill. It eliminates the ban on the payment of interest on demand deposits, better known as business checking accounts, after one year. I would prefer that Congress immediately lift the ban – but I believe a one year phase-in is an acceptable compromise.

I would like to thank the other sponsors of H.R. 859, Mr. Kanjorski, Mrs. Biggert, Mr. Gonzalez, Mr. Shays, Mrs. Hooley, Mr. Ney, Mr. Paul, and Mr. Sherman.

Mr. Chairman, I would like to insert into the record letters from the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Office of Thrift Supervision outlining why they support repealing the prohibition on paying interest on demand deposits.

I believe Congress must work to foster an environment in which the free enterprise market system can flourish and provide consumer choice. One place to start is by finally repealing this anti-competitive and cumbersome law. This Great Depression restriction has lead to economically wasteful efforts by small banks to circumvent this restriction and prevented many mom and pop shops from earning interest on their deposits.

H.R. 859 is supported by the U.S. Chamber of Commerce, the National Federation of Independent Business, America's Community Bankers, the Association for Financial Professionals, and the Independent Insurance Agents and Brokers of America.



DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC AFFAIRS

Embargoed Until 2 p.m.
March 5, 2003

Contact: Betsy Holahan
(202) 622-2960

INTEREST ON BUSINESS CHECKING ACCOUNTS AND RESERVE BALANCES

Testimony of Wayne A. Abernathy
Assistant Secretary for Financial Institutions
U.S. Department of the Treasury

Before the
Subcommittee on Financial Institutions and Consumer Credit
of the
Committee on Financial Services
U.S. House of Representatives

March 5, 2003

Chairman Bachus, Representative Sanders, and Members of the Subcommittee, I appreciate this opportunity to present the Treasury Department's views on legislation repealing the prohibition on the payment of interest on business checking accounts, and permitting the payment of interest on reserve balances that depository institutions maintain at the Federal Reserve Banks. The Treasury Department supports permitting banks and thrifts to pay interest on business checking accounts. We are also sympathetic to the arguments in favor of permitting the Federal Reserve to pay interest on reserve balances and support the goals of the legislation; however, inasmuch as the potential budget impact of the provision is not included in the President's Budget, we are not prepared to endorse the proposal at this time.

Paying Interest on Demand Deposits

The Treasury Department has consistently supported provisions repealing the prohibition on paying interest on demand deposits. In each of the last two Congresses, the House of Representatives passed legislation that included this repeal. We hope that the House does so again and that the Senate moves forward soon with similar legislation.

The prohibition is a relic of the Great Depression. Many policymakers in the 1930s worried about the solvency of the nation's banks and the harmful effects of widespread bank failures on the overall economy. One manifestation of that worry was the belief that limiting competition among banks would reduce bank failures, even if that resulted in fewer options and higher costs for consumers of financial services. Therefore, among other competition-limiting measures, Congress prohibited the payment of interest on demand deposits and established ceilings on the interest rates that depository institutions could pay their customers on other types of deposits.

Experience has shown that limiting consumer choice is a sub-optimal strategy for bank regulation. The market has a way of asserting itself. In recent decades, competition to banks from money market mutual funds (not subject to rate caps) and the development of negotiable order of withdrawal (NOW) accounts by New England thrifts worked to undermine the "Regulation Q" deposit interest rate ceilings. At the beginning of the 1980s, Congress allowed banks to offer money market deposit accounts (MMDAs), free of interest rate controls, to compete with non-bank money market mutual funds. It also permitted interest to be paid on household checking deposits, approving NOW accounts nationwide.

Repeal of the prohibition on paying interest on demand deposits would eliminate a needless government control, consistent with the earlier elimination of Regulation Q rate ceilings on other deposits. The result will be greater economic efficiency. Banks could reduce the resources that they spend on procedures to get around these market restrictions, such as practices that provide implicit interest on compensating balance accounts or mechanisms that sweep demand deposits into money market investments. Community banks with fewer means to compensate for the lack of interest payments would be better able to compete with large banks and non-bank financial services providers in attracting business depositors. Repeal would benefit the nation's small businesses by allowing them to earn a positive return on their transaction balances. Larger businesses today have been able to offset the lack of interest on checking accounts by using sweep accounts to earn interest or by obtaining price concessions on other bank products.

We favor the direct repeal of the prohibition on paying interest on demand deposits, such as that contained in the bill authored by Representative Toomey (H.R. 859) that would be effective one year after enactment. Rather than directly repealing the prohibition, the bill introduced by Representative Kelly (H.R. 758) would authorize an increase from 6 to 24 in the allowable transactions per month between demand deposits and interest bearing money market deposit accounts, an indirect way for businesses to earn interest on their checking account funds. We think that this would be appropriate as a transitional arrangement until full repeal of the prohibition on demand deposit interest becomes effective. Combining these two proposals, as the House of Representatives did in the last Congress, would help ensure that banks are immediately able to offer the equivalent of interest bearing checking accounts to their business customers before the repeal of the prohibition becomes effective. In any event, the Treasury Department continues to prefer a relatively quick repeal of the prohibition on paying interest on demand deposits.

Permitting the Federal Reserve to Pay Interest on Reserve Balances

H.R. 758 also would allow the Federal Reserve Banks to pay interest on the reserve balances that they hold of depository institutions. The Federal Reserve Act requires depository institutions to maintain reserves against certain of their deposit liabilities. The first $6 million of an institution's transaction accounts are currently exempt from reserve requirements. Transaction balances between that level and $42.1 million are subject to a 3 percent reserve requirement. The Federal Reserve prescribes a 10 percent requirement on balances above that amount, within a statutorily prescribed range of 8 to 14 percent.[1] Institutions typically meet these reserve requirements through vault cash and a portion of their reserve balances at a Federal Reserve Bank, known as required reserve balances. Depository institutions may voluntarily hold reserve balances above the amount necessary to meet reserve requirements, which are called excess reserves. They may also enter into agreements with the Federal Reserve to hold certain balances that would cover transactions cleared through their accounts, called contractual clearing balances. Contractual clearing balances do not count toward meeting reserve requirements.

Required reserve balances and excess reserves held at the Federal Reserve do not earn interest. They are therefore sometimes referred to as sterile reserves. Contractual clearing balances earn implicit interest through the offset of fees for Federal Reserve services. In January 2003, depository institution reserve requirements averaged $41 billion. Depository institutions met these requirements with $32.7 billion in vault cash and $8.3 billion in required reserve balances at Federal Reserve Banks. They also held $1.7 billion in excess reserves and $10.5 billion in contractual clearing balances.

Although they have risen in the last couple of years due largely to declining interest rates, required reserve balances at Federal Reserve Banks have declined by more than three-fourths since the end of the 1980s (from $34.4 billion in December 1989 to $8.3 billion in January 2003). Three factors may be primarily responsible for the long-term decline: (1) regulatory actions taken by the Federal Reserve in the early 1990s reducing reserve requirements, (2) banks' growing use of new products and technology, such as retail sweep accounts, to minimize required reserves, and (3) growth in the use of vault cash through the first half of the 1990s to meet reserve requirements, as increased ATM usage continued to increase the need for such cash. The proportion of reserve requirements met by vault cash rose from 44 percent in December 1989 to 80 percent in January 2003.

Governor Kohn has presented the concerns that current limitations may affect the ability to conduct monetary policy. While these problems are not imminent, we share the concerns about the implications of these restrictions over time.

In addition to potential benefits for the operation of monetary policy, permitting the payment of interest on reserve balances at the Federal Reserve Banks would promote economic efficiency. Uncompensated reserves act as a tax upon banks, while serving no public policy interest. To avoid this tax, banks have engaged in otherwise uneconomic activity to avoid

[1] The Federal Reserve may also set reserve requirements on nonpersonal time and savings deposits within a statutorily set range of zero to 9 percent (currently set at zero), and may prescribe requirements for Eurocurrency liabilities (currently zero).

holding these non-interest bearing required reserve balances. In recent years, the declining cost of technology has allowed banks to establish new types of sweep arrangements for retail customer accounts with the express purpose of minimizing reserve requirements. This sweeping is often invisible to the customer as a practical matter, but it does impose an unrecompensed business cost on banks. These costs harm the competitiveness of banks – not only with foreign institutions but with other financial services providers. If banks earned interest on these reserve balances, they would be less likely to expand the use of sweeps and might unwind some existing sweep programs.

The Office of Management and Budget (OMB) and Congressional Budget Office (CBO) have in the past estimated that paying interest on required reserve balances would have a budget cost, since it would reduce Federal Reserve System earnings transferred to the Treasury. Neither the OMB nor CBO have recently updated their estimates of the cost of this proposal.

H.R. 758 provides an "offset" to the budget cost by transferring a part of the Federal Reserve's surplus to the Treasury. It is true that in the past, budget accounting rules have at times permitted the transfer of Federal Reserve surplus funds to the Treasury to count as receipts that would offset the cost of other programs. Yet, over time, transfers of the surplus do not result in budget savings. In transferring a portion of its surplus to the Treasury, the Federal Reserve would reduce its portfolio of interest-earning assets. This would in turn decrease the Federal Reserve's future earnings and remittances to the Treasury. Budgetary receipts in the near term would increase only at the expense of foregone longer-term receipts.

Conclusion

We welcome action by Congress to repeal prohibitions on paying interest on business checking accounts at depository institutions. Repeal would eliminate unnecessary restrictions on these institutions' ability to serve their commercial customers, and it would level the playing field between them and other financial services providers that can compensate businesses for deposits without similar legal restrictions. Repeal would especially benefit the nation's small businesses.

The ability to pay interest on reserve balances maintained at the Federal Reserve Banks may improve the effectiveness of the tools that the Federal Reserve has to implement monetary policy. Financial system efficiency would likely improve as fewer resources would be devoted to minimizing reserve balances. As a general matter, we are sympathetic to these arguments and support the goals of the legislation. However, inasmuch as the potential budgetary costs associated with this proposal are not provided for in the President's Budget, the Administration is not prepared to endorse the proposal at this time.

Thank you for the opportunity to appear before the Subcommittee. I am happy to respond to any questions.

Testimony of Robert D. Auerbach Before the Subcommittee on Financial Institutions and Consumer Credit, The House of Representatives Committee on Financial Services Hearings on H.R. 758, the Business Checking Freedom Act, and H.R. 859, the Business Checking Freedom Act, March 5, 2003 [1]

Mr Chairman and members of the Subcommittee on Financial Institutions and Consumer Credit, I am very honored to present my views on H.R. 758, the Business Checking Freedom Act, and H.R. 859, the Business Checking Freedom Act.

I support the removal of the prohibition against paying interest on demand deposits as authorized in H.R. 859. That needed improvement was attempted in 1980 when I assisted House Banking Chairman Henry Reuss in developing the Monetary Control Act (MCA) of 1980. It failed to gain the necessary support.

I oppose the provisions in H.R. 758 on the payment of interest on required reserves held at the Federal Reserve. When reserve requirements were 16 ½ percent on checking deposits at large Fed member banks in 1980 one solution to end this heavy tax was to pay interest on reserves. That solution to stop the rush of banks threatening to leave their Fed membership failed to gain support. The MCA did give the Fed authorization to raise "supplemental" reserve requirements and pay interest on those reserves if it declared that an emergency situation existed.. I will respectfully suggest that the payment of interest on required reserves held at the Fed has become largely irrelevant and that the legislation being considered would not be in the public interest.

There had never been mandatory Federal reserve requirements until passage of the MCA in 1980.It reduced the reserve requirements on checking accounts of larger banks from 16½ percent to an initial 12 percent.[2] The problems of trying to build a wall around several types of deposits that have reserve requirements was discussed with the Fed which rejected a remedy.

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[1]Professor of Public Affairs, Lyndon B. Johnson School of Public Affairs, The University of Texas At Austin, P.O. Box Y, Austin Texas 78713-8925, http//www.utexas.edu/lbj/faculty/auerbach.html

[2]The 16 ½ percent reserve requirement applied to demand deposits in excess of $400 million. The Monetary Control Act of 1980 gave the Fed the authority to set reserve requirements in a range of 8 to 14 percent. The reserve requirements were fully phased in for all banks except those in Hawaii by October 24, 1985 and in Hawaii by 1993.The 1980 MCA reduced the reserve requirement to 3 percent on amount on checkable deports below a cutoff that was adjured to $41.3 million in 2002. The 1982 Garn-St Germain excluded from reserve requirements those banks with the 3 percent required reserve requirements to a cutoff adjusted to $5.7 million in 2002.

Under MCA the Fed produced its periodic sky will fall defense (actually a warning to preserve the power of its government bureaucracy): *we will lose control of the money supply without more required reserves*. As expected from monetary theory and from the record of banks that operated with no reserve requirements, that loss of control did not happen. Despite their own warning the Fed subsequently lowered the reserve requirements further to 10 percent.

To assure that the Fed would not lose control of the money supply Fed Chairman Paul Volcker negotiated for inclusion in MCA supplemental reserve requirements of up to 4 percent. The Fed can implement them if it deems there to be a national emergency and it is authorized to pay interest on these supplemental reserves. Unlike the proposed legislation you are considering that does not specify any particular short-term interest rate, the MCA specifies a limit to the interest rate the Fed can use as explained in a footnote.[3]

The supplemental reserve requirements were never used. Instead, the required reserves held at the Fed fell from as high as $35 billion in the early 1990's to less than $10 billion, as shown in the chart submitted with testimony. Total required reserves did not appreciably change as the money supply increased. There are two general causes:

[3]The interest rate will be no higher than the average interest rate on the Federal Reserve's own portfolio of financial assets.

- ATM's loaded with cash satisfy part of the reserve requirement.[4]
  - Large banks found increasing ways to reduce their required reserves:. Sweep accounts, overnight repurchase agreements as well as placing deposits, with the depositors agreement, in an accounting record labeled as an overseas account. The weekend dollar game described in a footnote was called to the attention of the Fed by the Banking Committee chairman in the 1980's. They replied that since there were other way to bypass reserve requirements it would be desirable to fix this one problem.[5]

The contention that the money supply or the Federal funds rate have become more difficult to control because of these changes would need much more evidence. One new policy significantly increased the control of the Federal funds as indicated in the Fed's own research. This was the result of the 1992-1993 struggle for maintaining secrecy by the Greenspan Fed with members of Congress including Henry B. Gonzalez. The Fed began the immediate announcement of changes in its target Federal funds rate in February 1994. The variability of the Federal funds rate.

Another recent potential improvement in money supply control has been the long overdue recently implemented "penalty" rate on bank borrowing from the Fed.

Given this background consider the effects of the proposed payment of interest on reserves. The Fed held $9.3 billion of the private banks' required reserves on February 5, 2003.[6] I assume that the Fed will use the Federal funds rate or something close to it for these interest payments. A graph of the Federal funds rate is included in this testimony for the period up to March 2000, eliminating the present atypical period of a prolonged depressed economy with a reduced demand for loanable funds. The average Federal funds rate in the 30 years from 1970 to 2000 was 7.7 percent. To avoid the complaint that those thirty years were somehow an anomaly

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[4]Cash held at banks for daily operations and in ATM's is deductible from required reserves needed to be passed though to the Fed the reserve requirement.

[5] The weekend dollar game is enabled by the Fed's improper counting Friday as three days in computing average reservable deposits. Switching accounts on Friday to London produces "due froms" that reduce average deposits subject to reserve requirements. The deposits are returned to a domestic account on Monday.

[6]This estimate is not adjusted for reserve requirements or seasonals.

and the current period of low interest rates will be the norm I settle for a long term average Federal funds rate of 5 percent.

That rate for a guaranteed perpetual government subsidy will certainly increase the size of reserves at the Fed. The reserves at the Fed could rise to their level in 1990 of over $35 billion. I use $20 billion as a conservative estimate of the required reserves parked at the Fed. At a 5 percent they would yield $1 billion a year. Assuming a 6 percent rate of discount for this guaranteed government income stream would have a value of $16.7 billion.

Past contributions to the Fed's surplus account have no real budgetary effects. Changing the money recorded in one government account to another has no economic content. This bookkeeping change has been used before to avoid limits imposed by the appropriations process. The interest payments will not bestow more income on the banks at zero cost. The full cost will be borne primarily by the public.

Small banks that do not have any or few required reserves will be less able to benefit from this government transfer. Depending on interest rates (and the slope of the yield curve) banks will have an incentive to reduce cash intensive services such as ATM's and place more of their reserves at the Fed. Benefits will accrue to large financial holding companies that can move funds in and out of their domestic checking accounts from all corners of their operations.[7]

The government annuity will have a built-in benefit from higher interest rates for banks which elect 2/3 of the boards of directors at the twelve Federal Reserve Banks who in turn elect the people who vote on the nation's money supply. Inflation which raises market interest rates will have benefits for this Fed constituency.

The $16.7 billion asset given by the government to the banks can have positive welfare effects if its income stream is transferred to depositors as interest on their deposits, as some economists have theorized assuming the banking industry is a competitive industry. This is the wrong model. I would be happy to explain this point using the example of parallel pricing the industry uses for its advertised prime rate. The primary recipients of the $16.7 billion government guaranteed perpetual annuity will be the stockholders of large banks. They will receive very respectable capital gains.

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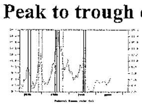
[7]Once the government patches one distortion of the price system with another economists will have a field day trying to determine who wins and who loses.

Federal Funds Rate 1965 - 2000
Peak to trough of recessions in this period are shaded.



TESTIMONY OF
BRUCE R. BENT
CEO OF THE RESERVE FUNDS

BEFORE THE
FINANCIAL INSTITUTIONS AND CONSUMER CREDIT SUBCOMMITTEE
HOUSE FINANCIAL SERVICES COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

HEARING ON H.R. 758 AND H.R. 859

MARCH 5, 2003

Thank you, Mr. Chairman, for the privilege of appearing before you and the distinguished members of your Subcommittee on this legislation. I am Bruce Bent CEO of The Reserve Funds. It is an honor to be on a panel with such outstanding financial leaders and I agree that business checking accounts should be able to earn interest.

I agree with and commend Representatives Toomey and Kelly and the co-sponsors for their leadership in trying to level the playing field between small and large banks.

Big banks and brokerage houses have used conventional sweep accounts as a way of paying interest on business checking accounts but only large banks and businesses were able to benefit. Small businesses were not able to take advantage of them due to the minimum balance requirement. Smaller banks also lacked the resources necessary to install such a system, with the net result being that big banks paid interest on checking accounts, small banks did not. This inequity cried out for correction, consumers were placed at a disadvantage.

When this legislation was first proposed in 1996, it was the only solution to this inequity and, therefore, it garnered widespread support. Between then and now, however, there has been a technological revolution that solves the problem and makes this legislation unnecessary. Technological breakthroughs have transformed our capabilities everywhere but nowhere faster than in financial services as this committee knows so well.

I, therefore, commend you, Mr. Chairman, for holding this hearing in light of the totally changed capabilities of financial institutions since the Congress last considered this subject.

This legislation has been made obsolete by innovation in the private market and the use of computer technology to create the "Reserve Return Sweep" accounts. But before I go into detail I would like to provide you with some background on The Reserve Funds and our role in the banking industry. The Reserve Fund, the worlds' first money market mutual fund, was founded in 1970 when we filed with the Securities and

Exchange Commission and opened to investors in the fall of 1971. The money market fund was created to fill a void in the marketplace. There needed to be a safe, liquid place to put cash that would provide a rate of return that reflected actual money market interest rates not the administered rate dictated by Regulation Q. I wanted a product that would be safe and convenient for consumers including businesses as well as being a smart investment. As we all now know, the money market fund filled that void and has been extremely successful with over $2 trillion now invested.

The same void that existed in the 1970s for individual bank accounts existed for business checking accounts. We wanted to find the same type of solution for businesses that we provided for individuals, an account that would provide a market rate of return, safety and liquidity. We created a bank "Sweep Account" that moved balances from business checking accounts at banks and into the Reserve money fund. Cash was swept back to the banks as checks cleared. Since the minimum account was $1,000 both the local gas station and General Motors could receive effective cash management with interest on what had been fallow deposits.

The sweep account was successful, but we thought there was room for improvement. Unfortunately, there is one drawback to this type of account and it is a major one, banks are not able to maintain the deposits on their balance sheet. This was particularly troubling for community and regional banks.

To address this issue, we launched the "Reserve Return Sweep" account in the year 2000. This product is an FDIC insured sweep account designed to help banks retain customer deposits while affording competitive interest rates for commercial accounts and, as an added advantage, no reserves are required on the balances. It is a viable alternative to third party money funds and in-house repurchase agreement programs which had hung the banker between providing premier services to customers and losing access to deposits. We have eliminated this dilemma, now both the bank and the depositor are well served at a very low cost to banks that is more than offset by the lending spread of 300 to 350 basis points they now can earn on the recaptured balances. Maintaining deposits on the banks balance sheet is crucial to loan funding and growth, potentially lowers the cost of funds, and reduces reliance on outside funding which usually means brokered deposits and often "hot" money. Prior to the creation of the Reserve Return Sweep account, non-bank competitors (brokers) jumped into the race to aggregate assets through money market mutual funds and while the depositors were well served most areas of the country and the banks therein were not. Because of the size criteria at money funds, arguably more money invested in the money funds wound up in London, Hong Kong and Tokyo than in any city in the U.S. other than New York. No more.

One of the purposes of the Gramm-Leach-Bliley Act was to level the playing field between large and small competitors and the "Reserve Return Sweep" account does just that. Allowing interest to be paid on business checking accounts in the manner proposed would disrupt the balance created by the Gramm-Leach Bliley Act. This delicate balance would be disturbed since the proposal grants the same powers to all banks large and small. The super giant banks would still have the advantage and the capital and are therefore better suited to win a rate war that would result with the passage of this legislation.

When Regulation Q was summarily repealed in 1982 the rate war it precipitated was a direct result and it cost the taxpayer $200 billion when the S & L's collapsed. We do not need another rate war particularly at this point in our financial markets. Multi-bank holding companies have the obvious advantage of a national presence and the ability to multiply their FDIC coverage by the number of banks in their group. The other 8,000 banks are set at $100,000 but with "Reserve Return Sweep" this is multiplied by the reciprocal linking of participating banks so that they too can compete.

I seriously doubt that in the last two hundred years anyone has ever appeared before Congress that did not have an ax to grind and I am no different, this legislation is potentially harmful to our product, but I am also concerned about the impact this well intentioned legislation will have on the banking industry and therefore, the entire economy.

Paying interest on business checking sounds fair but in reality when balances are excessive businesses already receive free checking, reduced rates on loans and, in general, the usual reciprocity that one would logically expect. Even larger balances are already swept to bank money market accounts and when coupled with "Reserve Return Sweep" nothing is overlooked. The broad based "interest on checking" proposed here would simply result in banks charging for the service they currently provide "free" and net little if anything for businesses and a potential rate war for an economy that would be better served with hugs and kisses. The banks will also incur the costs, risks and time in restructuring their portfolios to accommodate this new demand level.

I started my career as a clerk in a 2,000 square foot dry-goods store. I started my company with a $4,000 loan from my father, a U.S. postal clerk. I still think of myself as a little guy and I am very proud of the fact that my invention of the money market fund has enabled tens of millions of people to get a fair deal on their savings. One thing I have trouble with is that the money fund may have facilitated the concentration of banking in the U.S. and the lessening of competition and service to the customer. Fortunately, America still being a capitalistic society, over 900 community banks have been formed over the last four years alone to fill the void created by the unwillingness or inability of the mega banks to serve small business in particular.

Allowing (which is effectively forcing) banks to offer interest on checking balances puts these community banks at a competitive disadvantage.

I think that we can all agree that small businesses would benefit from earning interest on their balances. But this goal can be accomplished without passing legislation which has unintended consequences. The marketplace now has the appropriate solution which is cost effective and simple. Small banks will not have to deal with the cost or complexities of traditional sweep accounts and they will be able to keep their deposits on their books and profitably provide interest on business checking accounts. It is a win-win solution for small businesses which also includes the 8,000 small banks in America. We should allow the creativity and innovation of the marketplace to continue to provide the right solutions. As I have learned from my numerous years in the financial services industry, products will be developed that meet the demands of consumers. The Reserve Return Sweep account is an example of this.

Thank you and I would be happy to answer any questions at the appropriate time.

STATEMENT OF

REX HAMMOCK

HAMMOCK PUBLISHING

Subject:	Business Checking Freedom Act of 2003
Before:	House Financial Services Subcommittee on Financial Institutions and Consumer Credit
Date:	March 5, 2003

Good Morning. I'm Rex Hammock, president of Hammock Publishing Inc. in Nashville, Tennessee. Thank you, Mr. Chairman, for giving me the opportunity to testify on behalf of the National Federation of Independent Business (NFIB) regarding interest bearing checking accounts for small businesses.

I commend you Congressman Toomey, for introducing H.R. 859, the Business Checking Freedom Act of 2003. During both the 106th and 107th Congresses, the House passed by voice vote legislation overturning the archaic Depression-era law that prohibits interest on business checking accounts, only to see these efforts stall in the Senate. The big banks have consistently opposed repealing the ban on interest checking, and have proposed compromise legislation that would delay implementation of the repeal by three or more years. These efforts to insulate the industry from the costs of free-market competition have hurt small businesses, and NFIB is adamantly opposed to delaying implementation of the repeal. The bill, as currently written with a one-year delay, is already a compromise, and NFIB strongly urges the Committee to resist efforts to lengthen the phase-in period. Clearly, we have already delayed long enough.

Hammock Publishing, which I founded in 1991, today employs 25 full-time employees and several part time staff, along with utilizing the services of numerous independent writers and photographers from around the country. We are a custom publisher of magazines, newsletters and website content for corporate and non-profit clients. For instance, we publish the magazine

American Spirit for the well-known organization, the Daughters of the American Revolution.

When we started Hammock Publishing, we had a total of six employees. At that time, we did not have a bookkeeper on staff, so I, with the help of an accountant who checked in once a month, did the day-to-day bookkeeping. While there's a fog of excitement through which I recall the activities of setting up the business, I can still vividly remember going through the process of applying for a business line-of-credit and setting up a checking account through the small business banking department of the local branch of a large regional banking company.

That was when I first learned that a business couldn't earn interest on a checking account. I remember thinking it was odd and asking my banker, "Why not?" He said simply that it was against the law. But as a way around the restriction, he suggested that I set up what a bank called a "liquid investment account" -- which was similar, he told me, to a money market account. And so, that's what we did. We had three accounts with the bank: a checking account, a liquid investment account and a line-of-credit.

During those first two or three years, I personally would call the banker each day or so and shift funds around from account to account in order to ensure that I was neither paying interest on the line-of-credit nor losing interest that could be in the liquid investment account.

As any new business owner will tell you, there are a lot better ways to spend your time than calling your banker every day. But small business owners, by our nature, break out in hives at the thought of money sitting in a bank account not earning interest.

Even after our company grew larger and we were able to hire a bookkeeper, we continued to use this method of calling the bank to move funds to get around the restrictions on business checking account interest. I can remember waking up many nights trying to recall if I had transferred the intended funds from one account to another. The next morning it would not seem like a big deal, but when you are running a small business, even little nuisance problems can grow large at about 2:30 in the morning.

After some good-natured complaints to my banker regarding this stone-aged approach to banking, he suggested that I set up a sweep account to automate what we were doing manually each day.

While a sweep account may make sense for a larger company with an in-house accounting and financial staff to keep up with the flow of money from account-to-account, it can be a paperwork nightmare for a small business owner. We soon found that the sweep account, while addressing the non-interest bearing account issue, resulted in a flood of paper from the bank: Each day we received a reconciliation statement letting us know how the money had been shifted around in the past 24 hours. And because this is done via the mail, there was always a two-to-three day delay in the information flow so we never had an accurate, up-to-the minute view of the flow of funds among our banking accounts.

Don't get me wrong. I am not arguing against sweep accounts. But they are a bookkeeping hassle for a small business that would rather have their bookkeeping and accounting staff focused on managing payables and receivables than in keeping up with a flood of paperwork pouring out of the bank. For instance, in 2002, we received over 250 statements from our bank regarding our sweep account.

Ironically, we did not earn a significant amount of interest (or save interest on our line-of-credit) from this mountain of paperwork. And if you consider the allocation of bookkeeping staff time to handling the paperwork and the lack of oversight caused by the sweep solution, I could argue that we would have been much better off leaving the funds in a non-interest-bearing account - which is what many small business owners do - a fact that restricts much needed capital from those who need it most.

About four years ago, I had the privilege of providing similar testimony about my experience with non-interest checking to another congressional committee exploring this issue. A national business magazine mentioned my name in a follow-up story and identified me as someone who parks their company's money in a non-interest-bearing checking account (which, as I explained earlier, is not accurate). After that story appeared, I was contacted by financial advisors from all over the country with suggestions for how I could set up accounts in non-banking financial institutions in order to get around the interest checking issue. And so, while I have continued to work with a traditional banking institution, I've discovered through this issue that there are so many ways around this regulation, and people continue to come up with new ideas to get around the law, that it makes little sense to me why it should be continued. It would appear to me that even the banks who, on the surface, may seem to benefit from not paying interest, are running off some of their small business customers by continuing to defend this archaic practice.

I urge this Committee to lend its support to ensuring the expeditious adoption of the Business Checking Freedom Act, and to resist efforts to lengthen the phase-in period. Small businesses have waited long enough for this important measure. Again, I thank you for your time and attention this afternoon.

For release on delivery
2:00 p.m. EST
March 5, 2003

Statement of

Donald L. Kohn

Member

Board of Governors of the Federal Reserve System

before the

Subcommittee on Financial Institutions and Consumer Credit

of the

Committee on Financial Services

House of Representatives

March 5, 2003

The Federal Reserve Board appreciates this opportunity to comment on issues related to H.R. 859 and H.R 758. The Board strongly supports the provisions in these bills that would eliminate the prohibition of interest on demand deposits, authorize the Federal Reserve to pay interest on balances held by depository institutions at Reserve Banks, and provide the Board with increased flexibility in setting reserve requirements. As we have previously testified, unnecessary restrictions on the payment of interest on demand deposits at depository institutions and on balances held at Reserve Banks distort market prices and lead to economically wasteful efforts to circumvent these restrictions. And those efforts are more readily undertaken by larger banks, especially for their larger business customers. Moreover, these bills would enhance the toolkit available for the continued efficient conduct of monetary policy. In addition, the provision of increased flexibility in setting reserve requirements would allow the Federal Reserve to reduce a regulatory burden on depository institutions to the extent that is consistent with the effective implementation of monetary policy.

As background for considering paying interest on balances held at Reserve Banks, let me begin by discussing the role of such balances in the implementation of monetary policy. The Federal Open Market Committee (FOMC) formulates monetary policy by setting a target for the overnight federal funds rate--the interest rate on loans between depository institutions of balances held in their accounts at Reserve Banks. While the federal funds rate is a market interest rate, the Federal Reserve can strongly influence its level by adjusting the aggregate supply of deposit balances held at Reserve Banks through open market operations--the purchase or sale of securities that causes increases or decreases in such balances. However, in deciding on the appropriate level of balances to supply in order to achieve the targeted funds rate, the Open Market Desk must estimate the aggregate demand for such balances.

Depository institutions hold three types of balances at the Federal Reserve--required reserve balances, contractual clearing balances, and excess reserve balances. Required reserve balances are the balances that a depository institution must hold to meet reserve requirements. At present, the Federal Reserve requires depository institutions to maintain reserves equal to 10 percent of their transaction deposits above certain minimum levels. Reserve requirements may be satisfied either with vault cash or with required reserve balances, neither of which earn interest.

Depository institutions may also commit themselves in advance to holding additional balances called contractual clearing balances. They are called clearing balances because institutions tend to hold them when they need a higher level of balances than their required reserve balances in order to pay checks or make wire transfers without running into overdrafts. Currently, clearing balances do not earn explicit interest, but they do earn implicit interest for depository institutions in the form of credits that may be used to pay for Federal Reserve services, such as check clearing. Finally, excess reserve balances, which earn no interest, are funds held by depository institutions in their accounts at Reserve Banks in excess of their required reserve and contractual clearing balances.

To conduct policy effectively, it is important that the combined demand for these balances be predictable, so that the Open Market Desk knows the volume of reserves to supply to achieve the FOMC's target funds rate. It is also helpful if, when the level of balances unexpectedly deviates from the Desk's intention, banks themselves engage in arbitrage activities that help to keep the rate near its target. Depository institutions must maintain their specified levels of both required reserve and contractual clearing balances, not day-by-day, but on an average basis over a two-week maintenance period. The required amounts of both types of balances are known prior to the beginning of the maintenance period, so the Open Market Desk knows the balances it needs to supply on average over the period to satisfy these needs. Moreover, the two-week averaging creates incentives for depository institutions to arbitrage the funds rate from one day to the next in a manner that helps keep that rate close to the FOMC's target. For instance, if the funds rate were higher than usual on a particular day, some depository institutions could choose to hold lower balances on that day, and their reduced demand would help to damp the upward pressure on the funds rate. Later in the two-week period, when the funds rate might be lower, those institutions could choose to hold extra balances to make up the shortfall in their average holdings of reserve balances.

The averaging feature is only effective in stabilizing markets, however, if the sum of required reserve and contractual clearing balances is sufficiently high that banks hold balances, on the margin, as a means of hitting their two-week average requirements. If their sum dropped to a very low level, depository institutions would be at increased risk of overdrafting their accounts at Reserve Banks because of unpredictable payments out of their accounts late in the day. Depositories would then need to hold higher levels of excess reserves as a precaution against such overdrafts, and demand for these excesses would vary from day to day and be difficult to predict. For example, on days when payment flows are particularly heavy and uncertain, or when the distribution of reserves around the banking system is substantially different from normal, depositories need a higher than usual level of these excess balances as a precaution against the risk of overdrafts. The uncertainties about the level of balances that depositories wish to hold on a given day would make it harder for the Federal Reserve to determine the appropriate daily quantity of balances to supply to the market to keep the federal funds rate near the target level set by the FOMC. Moreover, if the demand for balances were determined largely by daily precautionary demands for excess reserves, there would be less scope for arbitrage of the funds rate by depositories across the days of a maintenance period. As a result, the funds rate could become more volatile and could diverge markedly at times from its targeted level.

Moderate levels of volatility are not a concern for monetary policy, in part because the Federal Reserve now announces the target federal funds rate, eliminating the possibility that fluctuations in the actual funds rate in the market would give misleading signals about monetary policy. A significant increase in volatility in the federal funds rate, however, would be of concern to the extent that it affects other overnight interest rates, raising funding risks for most large banks, securities dealers, and other money market participants. Suppliers of funds to the overnight markets, including many small banks and thrifts, would face greater uncertainty about the returns they would earn and market participants would incur additional costs in managing their funding to limit their exposure to the heightened risks.

As we have previously testified, the issue of potential volatility in the funds rate has arisen in recent years because of substantial declines in required reserve balances owing to the reserve-avoidance activities of depository institutions. Depositories have always attempted to reduce required reserve balances to a minimum, in large part because those balances earn no interest. Since the mid-1970s, some commercial banks have done so by sweeping the reservable transaction deposits of larger businesses into instruments that are not subject to reserve requirements. These wholesale business "sweeps" not only have avoided reserve requirements, but also have allowed some businesses to earn interest on instruments that are effectively equivalent to demand deposits. In recent years, developments in information systems have allowed depository institutions to sweep transaction deposits of retail customers into nonreservable accounts. These retail sweep programs use computerized systems to transfer consumer and some small business transaction deposits, which are subject to reserve requirements, into savings accounts, which are not. Largely because of such programs, required reserve balances have dropped from about $28 billion in late 1993 to around $7 billion or $8 billion today.

Despite the reductions in required reserve balances, the federal funds rate has not become more volatile to date. To an extent, this stability reflects the increasingly important role of contractual clearing balances, which have risen over the last decade in part as banks have sought to reduce risks of overdrafts after they implement retail sweep programs. As I noted previously, clearing balances earn implicit interest; reserve balances do not. Moreover, the declines in short-term interest rates since early 2001 have reduced the opportunity costs of holding transaction deposits and reserves, thereby slowing the further spread of sweep programs. Lower interest rates have also boosted the amount of contractual clearing balances needed to be held to pay for any given level of Federal Reserve services. In addition, improvements in information technology have evidently allowed depository institutions to become much more adept at managing their reserve positions, and as a result, their needs for day-to-day precautionary balances have fallen considerably. A number of measures taken by the Federal Reserve also have helped to foster stability in the funds market. These include improvements in the timeliness of account information provided to depository institutions; more frequent open market operations geared increasingly to daily payment needs rather than two-week-average requirements; a shift to lagged reserve requirements, which gives depositories and the Federal Reserve advance information on the demand for reserves; and improved procedures for estimating reserve demand.

However, if interest rates were to return to higher levels, sweep activity could intensify again and potentially become a concern. To prevent the sum of required reserve and contractual clearing balances from dropping even lower and to diminish the incentives for depositories to engage in wasteful reserve-avoidance activities, the Federal Reserve has long sought authorization to pay interest on required reserve balances and to pay explicit interest on contractual clearing balances. H.R. 758 would provide such authorization. With interest paid on required reserve balances, some sweep programs would likely be unwound, and new programs would be less likely to be implemented, thereby helping to boost the level of such balances. Eliminating such wasteful reserve-avoidance activities would also tend to improve the efficiency of the financial sector.

Payment of explicit interest on contractual clearing balances could result in an increase in the level of these balances; some depositories are currently constrained in the amount of such balances that can earn usable credits because of their limited use of Federal Reserve services. Moreover, payment of explicit interest would help to maintain the level of clearing balances at a time of rising interest rates. At present, some depositories pay for all their Federal Reserve services with credits earned on clearing balances; these institutions would not be able to use their additional credits if interest rates were to rise. If enough institutions were in this position, contractual clearing balances might drop below levels needed to be helpful for the implementation of monetary policy. With explicit interest, the level of balances on which interest could be effectively earned would not be limited to the level of charges incurred for the use of Federal Reserve services. Therefore, these depositories would not be impelled to reduce their balances when interest rates rise.

The authorization to pay interest on excess reserve balances, contained in H.R. 758, would be a potentially useful addition to the monetary toolkit of the Federal Reserve, although such interest payments are not needed for monetary policy purposes at the current time. An interest rate on excess reserves would tend to act as a floor on overnight interbank lending rates; a depository would not likely lend balances to another depository at a lower interest rate than it could earn by keeping the excess funds in its account at the Federal Reserve. Some other central banks pay interest on non-reserve deposits to provide such a floor for interest rates and also use a penalty interest rate on their lending to provide a ceiling for overnight rates. In January of this year, the Federal Reserve instituted a lending facility that should similarly help to mitigate upward spikes in overnight interest rates. It is unclear how well a ceiling and floor arrangement, as used by other central banks, would work in the United States, but the ability to pay interest on excess reserves might prove useful in the future as policy implementation evolves.

At present, the Federal Reserve is constrained in its flexibility to adjust reserve requirements. By law, the ratio of required reserves on transaction deposits above a certain level must be set between 8 and 14 percent. The authorization of increased flexibility in setting reserve requirements, included in H.R. 758, would allow the Federal Reserve to consider the possibility of reducing reserve requirements below the minimum levels currently allowed by law, and even, conceivably, to zero at some point in the future, provided we are also granted the authority to pay interest on contractual clearing balances to ensure a stable and predictable demand for the remaining deposit balances at the Federal Reserve, an essential pillar for the effective implementation of monetary policy. If explicit interest could be paid on contractual clearing balances, the level of such balances could potentially be high and stable enough for monetary policy to be implemented with existing procedures for open market operations, even with lower or zero required reserve balances. If the Federal Reserve were granted the additional authorities included in H.R. 758, we would carefully study the new range of possible strategies for implementing monetary policy in the most efficient possible way for banks, the markets, and the Federal Reserve.

H.R. 758 also includes a technical provision related to pass-through reserves. This provision would extend to banks that are members of the Federal Reserve System a privilege that was granted to nonmember institutions at the time of the Depository Institutions Deregulation and Monetary Control Act of 1980. It would allow member banks to count as reserves their deposits in affiliated or correspondent banks that are in turn "passed through" by those banks to Federal Reserve Banks as required reserve balances. The provision would remove a constraint on some banks' reserve management and would cause no difficulties for the Federal Reserve in implementing monetary policy. The Board supports it.

The efficiency of our financial sector also would be improved by eliminating the prohibition of interest on demand deposits, as provided for in H.R. 859. This prohibition was enacted during the Great Depression, a time when Congress was concerned that large money center banks might have earlier bid deposits away from country banks to make loans to stock market speculators, depriving rural areas of financing. It is doubtful that the rationale for this prohibition was ever valid, and it is certainly no longer applicable today. Funds flow freely around the country, and among banks of all sizes, to find the most profitable lending opportunities, using a wide variety of market mechanisms, including the federal funds market. Moreover, Congress authorized interest payments on household checking accounts with the approval of nationwide NOW accounts in the early 1980s. The absence of interest on demand deposits, which are held predominantly by businesses, is no bar to the movement of funds from depositories with surplus funds--whatever their size or location--to the markets where the funding can be profitably employed. In addition, small firms in rural areas are able to bypass their local banks and invest in money market mutual funds with transaction capabilities. Indeed, smaller banks have complained that they are unable to compete for the deposits of businesses precisely because of their inability to offer interest on demand deposits.

The prohibition of interest on demand deposits distorts the pricing of transaction deposits and associated bank services. In order to compete for the liquid assets of businesses, banks set up complicated procedures to pay implicit interest on compensating balance accounts. Banks also spend resources--and charge fees--for sweeping the excess demand deposits of businesses into money market investments on a nightly basis. To be sure, the progress of computer technology has reduced the cost of such systems over time. However, the expenses are not trivial, particularly when substantial efforts are needed to upgrade such automation systems or to integrate the diverse systems of merging banks. Such expenses waste resources and would be unnecessary if interest were allowed to be paid on both demand deposits and the reserve balances that must be held against them.

The prohibition of interest on demand deposits also distorts the pricing of other bank products. Many demand deposits are not compensating balances, and because banks cannot pay explicit interest, they often try to attract these deposits through the provision of services below their actual cost. When services are offered below cost, they tend to be overused to the extent that the benefits of consuming them are less than the costs to society of producing them.

H.R. 859 would delay the effectiveness of the authorization of interest on demand deposits for one year. The Federal Reserve Board believes that a short implementation delay of one year, or even less, would be in the best interest of the public and the efficiency of our financial sector. A provision of H.R. 758 would in effect allow implicit interest to be paid on demand deposits without any delay through a new type of sweep arrangement, but this provision would not promote efficiency. It would allow banks to offer a reservable money market deposit account (MMDA) on which twenty-four transfers a month could be undertaken to other accounts of the same depositor. Banks would be able to sweep balances from demand deposits into these MMDAs each night, pay interest on them, and then sweep them back into demand deposits the next day. This type of account would likely permit banks to pay interest on demand deposits more selectively than with direct interest payments. The twenty-four-transfer MMDA, which would be useful only during the transition period before direct interest payments were allowed, could be implemented at lower cost by banks already having sweep programs. However, other banks would face a competitive disadvantage and pressures to incur the cost of setting up this new program for the one-year interim period. Moreover, some businesses would not benefit from this MMDA. Hence, the Board does not advocate this twenty-four-transfer account.

Small businesses that currently earn no interest on their checking accounts would see important benefits from interest on demand deposits. Larger firms, too, would benefit as direct interest payments replaced more costly sweep and compensating balance arrangements. For banks, interest on demand deposits would increase costs, at least in the short run. However, interest on required reserve balances and possibly a lower burden associated with reduced reserve requirements would help to offset the rise in costs for some banks. And to the extent that banks were underpricing some services to attract these "free" deposits, those prices would adjust to reflect costs. Over time, these measures should help the banking sector attract liquid funds in competition with nonbank institutions and direct market investments by businesses. Small banks in particular should be able to bid for business demand deposits on a more level playing field *vis-à-vis* both nonbank competition and large banks using sweep programs for such deposits. Moreover, large and small banks will benefit from the elimination of unnecessary costs associated with sweep programs and other reserve-avoidance procedures.

The payment of interest on demand deposits would have no direct effect on federal revenues, as interest payments would be deductible for banks but taxable for the firms that received them. However, the payment of interest on required reserve balances would reduce the revenues received by the Treasury from the Federal Reserve. The extent of the revenue loss, however, has fallen over the last decade as banks have increasingly implemented reserve-avoidance techniques. Paying interest on contractual clearing balances would primarily involve a switch to explicit interest from the implicit interest currently paid in the form of credits, and therefore would have essentially no net cost to the Treasury. The payment of interest on excess reserves could also be authorized without immediate effect on the budget because the Federal Reserve does not expect to use that authority in the years immediately ahead.

H.R. 758 includes a provision to transfer some of the capital surplus of the Federal Reserve Banks to the Treasury in order to cover the budgetary costs of paying interest on required reserve balances. The Board has consistently pointed out that such transfers are not true offsets to higher budgetary costs. Let me take a moment to explain why.

The Federal Reserve System derives the bulk of its revenues from interest earnings on Treasury securities that it has obtained through open market operations. The System returns a very high proportion of its earnings every year to the Treasury. In 2002, it turned over $24.5 billion, or about 94 percent of its earnings. In most years, the System retains a small percentage of those earnings in its surplus account. The surplus account is a capital account on the Federal Reserve Banks' balance sheets. Since 1964, the Federal Reserve has followed the general practice of allowing the surplus to match the paid-in capital of member banks. Each member bank is required by law to subscribe to the capital stock of its Reserve Bank in an amount equal to 6 percent of its own capital and surplus. The Board requires that half of that subscribed capital be paid in. The Federal Reserve's surplus account is currently about $8-1/2 billion, while its total capital amounts to about $17-1/2 billion. Total assets of the Federal Reserve are around $720 billion.

Traditionally, the Federal Reserve and virtually all other central banks have maintained an appreciable level of capital. Maintaining a surplus account may help support the perception of the central bank as a stable and independent institution by ensuring that its assets remain comfortably in excess of its liabilities. However, the need for capital is limited by the modest variability of the Federal Reserve's profits, the safety of its primary asset, Treasury securities, and the substantial regular flow of earnings from its portfolio of securities. Moreover, a central bank can avoid defaulting on financial obligations by issuing additional currency to discharge them. As a consequence, it is difficult to defend a particular level of surplus as clearly necessary and appropriate.

Whatever the benefits of the surplus account, it should be emphasized that its maintenance is costless to the Treasury and to taxpayers. Indeed, a transfer of Federal Reserve surplus to the Treasury would provide no true budgetary savings or offset to expenses. The transfer would allow the Treasury to issue fewer securities, but the Federal Reserve would need to lower its holdings of Treasury securities by the same amount to make the transfer. Thus, the level of Treasury debt held by the private sector would be unchanged, and the Treasury's interest payments, net of receipts from the Federal Reserve, would also be unaffected. Over the years, Congress generally has concurred with this view, with a few exceptions. Indeed, congressional budget resolutions passed in 1996, 1997, 2000, and 2001, as well as a report last year by the General Accounting Office, noted that transfers of surplus have no real budgetary or economic effects.

In summary, the Federal Reserve Board strongly supports the proposals in H.R. 859 and H.R. 758 that would authorize the payment of interest on demand deposits and on balances held by depository institutions at Reserve Banks, as well as increased flexibility in the setting of reserve requirements. We believe these steps would improve the efficiency of our financial sector, make a wider variety of interest-bearing accounts available to more bank customers, and better ensure the efficient conduct of monetary policy in the future.

Testimony of

America's Community Bankers

on

Interest on Business Checking Accounts

before the

Subcommittee on Financial Institutions & Consumer Credit

of the

Committee on Financial Services

of the

U.S. House of Representatives

on

March 5, 2003

Edwin R. Maus
President and CEO
Laurel Savings Bank
Allison Park, Pennsylvania

Mr. Chairman, Ranking Member Sanders, and members of the Subcommittee, my name is Edwin Maus. I am president and chief executive officer of Laurel Savings Bank, a $270 million institution in Allison Park, Pennsylvania.

I am testifying today on behalf of America's Community Bankers, where I serve as a member of ACB's Community Institutions Committee. Thank you for this opportunity to testify on the "Business Checking Freedom Act of 2003," legislation whose subject matter was first brought to the attention of Congress by ACB in 1994.

ACB strongly supports allowing banks to offer interest-bearing business checking accounts and urges the 108th Congress to pass H.R. 859, introduced by Representatives Pat Toomey (R-PA) and Paul Kanjorski (D-PA). We also support authorizing the Federal Reserve to pay interest on sterile reserves, as reflected in H.R. 758, introduced by Representative Sue Kelly (R-NY).

The existing ban on interest-bearing business checking accounts is the last statutory vestige of Regulation Q, an archaic law dating back to 1933. The law was originally intended to shield bank deposits from interest rate competition, which at the time was thought to be in the public interest.

Clearly, this prohibition is no longer needed. In its 1996 joint report, *Streamlining of Regulatory Regulations*, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision stated that the statutory prohibition against paying interest on demand accounts "no longer serves a public purpose." This statement lends additional authority to over twenty-five years of studies authorized by both the executive and legislative branches of the federal government consistently recommending that prohibitions against paying interest on demand deposits be removed.

By outliving its purpose, this prohibition has had a detrimental impact on community banking and small businesses in several ways. First, it has created an anti-competitive business environment allowing a limited number of financial conglomerates to corner the market for cash management services. Second, by discouraging businesses from creating demand deposit accounts at community banks, it has diminished our ability to lend to our neighbors and communities. Finally, it has prevented many small businesses from earning interest on their deposits.

Historically, the major beneficiaries of the ban on banks paying interest on business checking accounts have been a handful of large financial institutions. Unlike most community banks, these institutions have the financial resources to circumvent the prohibition by conducting so-called sweep arrangements. To better understand why this gives these institutions an unfair competitive advantage, it is worth examining what sweep arrangements involve.

There are essentially four sweep options that banks may offer, none of which, practically speaking, are viable for most community banks or the businesses they hope to serve:

Demand/Sweep Arrangements
This arrangement involves sweeping funds from a savings account into a demand account. Because the law limits the number of possible transfers per month, this approach is generally undesirable for most businesses.

Mutual Fund/Sweep Arrangement
Very large financial institutions can circumvent the law by controlling a bank and a mutual fund. Funds are swept daily from the bank to the mutual fund controlled by the bank. The mutual fund is not prohibited from paying interest, but because of a lack of competition, large banks frequently do not offer sweep services to all customers.

Third-Party Arrangements
Banks with sufficient commercial accounts and sweep transactions may use a third party, such as a mutual fund, for transfers. Because the third party is paying the interest, there is no technical violation of the law. However, smaller banks rarely have sufficient account volume or sweep activity to attract a "name" fund into which the swept dollars could be invested. Also, these third-party arrangements often encourage bank customers to seek service elsewhere, are less efficient and more costly than paying interest directly on demand accounts, and result in a loss of deposits necessary to support local lending.

Repurchase Agreements
Repurchase agreements, which generally involve the use of U.S. government securities, are labor-intensive and involve costly paperwork expenses. For most banks, particularly small- and medium-sized community ones, the benefits of repurchase agreements are simply not worth the costs and burden.

Sweep arrangements are often a costly and cumbersome product for a community bank to offer its customers. In fact, many institutions that offer sweeps today do so only because they are not allowed to pay interest on business checking accounts. Given the choice, they would select the more efficient and less costly option of paying interest on business checking accounts.

The interest on business checking option would also provide a stimulus for America's small businesses and the economy as a whole. Many small businesses do not earn interest on their demand deposits because they cannot afford to maintain the minimum level of deposits required for a sweep account. By lifting the ban on interest-bearing business checking accounts, Congress can give these small businesses the opportunity to finally earn a market rate of return on their demand deposits.

For many "mom n' pop" businesses, this could mean the margin of difference for surviving a weak economy. In addition, it would open up an entire segment of potential new deposits for community banks to lend to our neighbors and communities. Given the current debate in Washington over how best to revive the economy, doesn't a revenue-neutral economic stimulus tool like H.R 859 make all the more sense?

We think it does. And we're pleased to be joined in our support for this legislation by the National Federation of Independent Business, U.S. Chamber of Commerce, Association for

Financial Professionals, and Independent Insurance Agents of America. Repealing the prohibition against banks paying interest on business checking accounts also has consistently received the support of both the Federal Reserve and the Treasury Department.

Most importantly, this legislation was passed not just once, but twice, by the U.S, House of Representatives during the 107th Congress, and three other times before that. We hope that the House will follow suit this year with a strong vote in favor of this much needed legislation.

One critical issue that must be touched on with respect to this legislation is timing. In the past, much of the opposition to this change in law has been camouflaged under the guise of unreasonably long transition periods. Since this issue was first brought to the attention of Congress, institutions have had ample time to make any needed changes to their systems, operations, and business plans. There is also precedent for a shorter time interval: the 1980 law permitting banks to pay interest on consumer checking accounts (PL 96-221) took effect nine months after it was signed into law by the President.

Because a delay would only postpone the benefits of this much-needed new deposit product, ACB would strongly prefer that legislation lift the ban immediately upon enactment. We believe, however, that the one year phase-in contained in H.R. 859 represents an acceptable compromise to address any remaining concerns about a transition period. We strongly urge Congress not to extend this phase-in period beyond one year.

We are also aware that a small, but vocal pocket of our community bank brethren does not see eye-to-eye with us on this issue. As a fellow community banker, I cannot understand the opposition of this group to the option of offering a better product to potential business customers. Today's world of financial services is much different than that of the 1930s. The evolution of capital markets and the expanded availability of mutual funds give both consumers and businesses a number of low-risk alternatives to deposit accounts. As a result, community banks face stiff competition for the business of deposit-taking. Allowing us to offer an efficient demand deposit product like interest-bearing business checking accounts is a forward-looking approach to addressing this problem.

Let me remind my fellow community bankers that H.R. 859 does not require banks to pay interest on business checking accounts; we simply want the option of doing so. If a bank would choose not to offer such a product, that's fine. But please don't stand in the way of those of us who would.

I would also like to take this opportunity to express ACB's support for legislation authorizing the Federal Reserve Board to pay interest on sterile reserves held at the Federal Reserve Banks. This implicit tax creates incentives to adopt sweep arrangements on demand deposits that are not subject to reserve requirements. Paying interest on required reserve balances will increase the effectiveness of monetary policy and help make a bank's payment of interest on its business checking accounts more feasible. On behalf of ACB, I would like to commend Representative Kelly for her ongoing efforts on this issue.

ACB strongly endorses H.R. 859, the "Business Checking Freedom Act of 2003," an important step for community banks, small businesses and the American economy. We thank Representatives Toomey and Kanjorski for their sponsorship of this critical legislation and urge Congress to pass it immediately.

Thank you again for the opportunity to testify before the Subcommittee, and I look forward to any questions you may have.

TESTIMONY
108th CONGRESS

TESTIMONY OF

R. MICHAEL STEWART MENZIES, SR.
PRESIDENT & CEO

OF
EASTON BANK AND TRUST COMPANY
EASTON, MARYLAND

ON BEHALF OF THE

INDEPENDENT COMMUNITY BANKERS OF AMERICA

BEFORE THE

FINANCIAL INSTITUTIONS AND CONSUMER CREDIT SUBCOMMITTEE
HOUSE FINANCIAL SERVICES COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

MARCH 5, 2003

Mr. Chairman, Ranking member Sanders, members of the Committee, my name is R. Michael Stewart Menzies, Sr., and I am President and CEO of Easton Bank and Trust Company, located in Easton, Maryland. I am also Vice Chairman of the Independent Community Bankers of America's (ICBA)[1] Federal Legislation Committee. I am pleased to appear here today on behalf of the 5,000 community banks across the nation that are members of the ICBA to share with you our views on the payment of interest on reserves maintained at Federal Reserve banks, and the repeal of the prohibition of payment of interest on business checking accounts.

Repeal of the Prohibition of the Payment of Interest on Business Checking Accounts

I will first address the issue of interest on business checking accounts. Mr. Chairman, as you know, this issue has been hotly debated among community bankers for several years. Bankers remain divided on whether or not the prohibition on paying interest should be repealed, and there are wide differences of opinion regarding the anticipated effects. Some community banks argue that lifting the prohibition could be very costly in a high interest rate environment and these costs, as all costs of banking, would eventually be passed along to the consumer.

Other bankers argue that remaining competitive is necessary to retain their best business customers. Therefore, lifting the prohibition is a way of increasing economic efficiency, and simplifying business practices. They believe that the current prohibition has been competitively damaging to the banking industry, especially community banking. Brokerage firms and other non-bank competitors will continue to aggressively compete directly with commercial banks to develop and expand small business relationships. They further argue that if the banking industry is not allowed to be competitive in offering interest-bearing commercial checking accounts, community banks may become more vulnerable to losing their most important business deposit and loan customers to non-bank and money center financial services providers that are not constrained by banking prohibitions.

Proposed Alterative

Mr. Chairman, ICBA has neither endorsed nor opposed lifting the prohibition on paying interest on business checking accounts. Rather, we have advocated an alternative that bankers on both sides of the issue tell us they can support. Under this alternative, which is along the lines of H.R. 974 introduced by Congresswoman Kelly, the number of allowable transactions from money market deposit accounts (MMDA) would be increased to 24 per month, from the current limit of 6 per month. This will enable banks to sweep funds between non-interest bearing commercial checking accounts and interest-bearing MMDA accounts on a daily basis. Thus, any bank that chooses to pay interest on a commercial checking account would be able to do so using the "sweep" mechanism at a cost significantly lower than the current alternative re-purchase agreement sweep program. This would create less of a financial burden, and allow community banks to be more competitive.

As you know, the MMDA is a type of savings account that pays interest, and is available to businesses as well as other account holders. However, the law currently allows a maximum of six pre-authorized third-party withdrawals per month. Sweeps are arrangements between depository institutions and business customers that allow the institutions to transfer the businesses' checking account balances out of those accounts each evening, and put them into interest-bearing MMDA accounts. The next morning, the balances are transferred back into the business' checking accounts. Sweeps therefore, give customers the advantage of accumulating interest on their balances when the balances are not in use.

The proposal to amend the law governing MMDA accounts to permit 24 transactions per month is beneficial to both the customer and the bank. It would enable commercial customers to yield a return on the funds they have deposited with the bank, and small businesses would be given access to a sweep product that is otherwise unaffordable. Community banks would remain competitive in providing cash management services to their commercial customers, would be able to pay higher interest rates on small business money market sweep accounts without being forced to pay interest on all commercial checking accounts.

ICBA supports the bill introduced by Congresswoman Kelly, and we urge the Committee to support the proposed compromise. However, should the prohibition on the payment of interest on business checking accounts be repealed, we urge the Committee to build in a transition period of no less than two years to allow financial institutions to unwind long term business arrangements with their commercial customers.

Payment of Interest on Reserves Maintained at Federal Reserve Banks

Let me now move to the proposal to require the Federal Reserve to pay interest on required and excess reserves depository institutions maintain as balances at Federal Reserve Banks, and discuss the impact of this proposal on community banks.

The Federal Reserve is in support of such a requirement and argues that this could induce banks to increase their reserve balances. The Fed has stated that it is concerned that a steady continued decline in reserve balances could impair its ability to execute monetary policy. The reserves at the Fed have dropped significantly in recent years as required reserves have decreased and depository institutions have become more adept at managing their reserve balances.

One of the reasons for this precipitous decline in the reserve balance is that some financial institutions have been able to reduce the amount in their transaction accounts, against which reserves must be maintained, by sweeping funds into non-reservable, interest-bearing instruments at the end of each day. This is a practice that takes place mostly with larger financial institutions, and not smaller financial institutions such as community banks.

Currently, no reserves are required for reservable liabilities under $5.7 million. When taking this into account, many community banks are not required to post substantial reserves, and many community banks can meet their required reserves with vault cash. If a smaller bank has no reserve requirements, or meets them directly through the use of vault cash (including cash at branches and ATM locations), or a combination of vault cash and reserve accounts, they do not stand to benefit directly from this proposal. They would not earn interest on reserves, because either they do not maintain a Fed reserve account or their balance is very small.

Another reason for the decline in reserve levels is the proliferation of deposit options available to bank customers. Customers are diversifying their funds by placing them in IRA's and 401(k)s and purchasing mutual funds, bonds or CDs. The availability of these options, coupled with ready access to these options through the Internet, has contributed to the steady decline in reservable deposits.

This deposit shift has been particularly harmful to community banks that rely on core deposits as their primary source of lendable funds. That is why the ICBA has advocated an increase in deposit insurance coverage levels as a means to keep more funds in local financial institutions for community lending purposes.

Little Benefit for Smaller Banks

So you can see, Mr. Chairman, the interest on reserves proposal would have little, if any, direct monetary benefit for most community banks. Indeed, it is the larger depository institutions that would benefit most from such a proposal. According to a Federal Reserve analysis, almost all of the banks that would receive interest on required reserve balances would be distributed evenly among banks in the top three-fifths, ranked by total deposits, but the dollar payments would be heavily skewed to those banks in the top fifth. These findings were conveyed to our association (then called the Independent Bankers Association of America) in a letter from Donald L. Kohn, director of the Federal Reserve's Division of Monetary Affairs, dated October 21, 1998.[2] We wrote to the Federal Reserve to inquire as to whether an analysis had been done to quantify the benefits to large banks versus community banks if legislation allowing the Fed to pay interest on reserves was enacted.

Role of Reserves in Monetary Control

Central to the required reserves issue is the role of reserves in monetary control. We appreciate Federal Reserve Chairman Greenspan's concern that if the decline in reserves continues, it could have an effect on the Federal Reserve's ability to implement monetary policy and may have the potential to increase the volatility of the federal funds interest rates. We defer to Chairman Greenspan on this important issue.

In conclusion, legislation to require the payment of interest on reserves maintained at Federal Reserve banks would not benefit community banks directly. However, we understand the importance of the Federal Reserve's concern about maintaining monetary control and the role that the Federal Reserve System provides to our nation's community bankers. Therefore, we do not oppose the proposal to require the Fed to pay interest on sterile reserves.

Conclusion

Thank you for the opportunity to testify on both issues regarding the payment of interest on sterile reserves held at Federal Reserve banks and the issue of the payment of interest on business checking accounts.

ICBA stands ready to work with you on these issues. I look forward to answering any questions you or other Subcommittee members may have.

[1] ICBA is the primary voice for the nation's community banks, representing nearly 5,000 institutions at nearly 17,000 locations nationwide. Community banks are independently owned and operated and are characterized by attention to customer service, lower fees and small business, agricultural and consumer lending. ICBA's members hold more than $486 billion in insured deposits, $592 billion in assets and more than $355 billion in loans for consumers, small businesses and farms. They employ nearly 239,000 citizens in the communities they serve. For more information, visit www.icba.org.

[2] Letter to the Independent Community Bankers of America from Donald L. Kohn, director of the Federal Reserve's Division of Monetary Affairs, October 21, 1998.

[3] The reserve requirement is 3% of net transaction accounts up to $41.3 million, and $1,239,00 plus 10% of any amount over $41.3 million (12 CFR 204.9).

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Send mail to info@icba.org with questions or comments.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ALAN GREENSPAN
CHAIRMAN

April 2, 2001

The Honorable Michael G. Oxley
Chairman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

The Committee on Financial Services recently approved H.R. 974, which would allow the Federal Reserve to pay interest on reserves and allow depository institutions to pay interest on business checking accounts. The Board has long supported these changes, and I congratulate you on your leadership in moving these measures through the Committee so early in your tenure.

There is one measure that was added to H.R. 974 that raises serious concerns, however. The bill includes a provision that is designed to expand the powers of industrial loan companies to allow these institutions to offer business NOW accounts. While this appears at first to be a minor amendment, it could in fact have significant ramifications.

Industrial loan companies chartered in certain states are exempt from the definition of "bank" in the Bank Holding Company Act. Consequently, any type of company, including a commercial entity, may own an industrial loan company chartered in a grandfathered state. A number of industrial loan companies are in fact currently owned by commercial entities. So far, however, the powers of industrial loan companies have been limited to exclude checking accounts and business NOW accounts.

H.R. 974 would greatly expand the powers of industrial loan companies and make them virtually indistinguishable from commercial banks. Consequently, the amendment would broadly expand the mixing of banking and commerce by making industrial loan companies virtually identical in powers to commercial banks. It would also provide a significant competitive advantage to owners of industrial loan companies because these commercial companies are not subject to supervision under the Bank Holding Company Act while owners of banks are subject to that Act.

We urge you to remove or modify the industrial loan company amendment before final adoption of H.R. 974 by the House.

Sincerely,

March 5, 2003

The Honorable Spencer Bachus, Chairman
Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services
2128 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Bachus and Members of the Committee:

We are coalition of more than 1,800 independent community banks who strongly oppose HR 859, legislation that would repeal ban on paying interest on corporate demand deposits. Our coalition instead supports HR 758, Congresswoman Sue Kelly's "Business Checking Freedom Act", legislation that would allow twenty-four sweep transactions per month on business checking accounts. Congresswoman Kelly's HR 758 provides the benefit of interest on business checking accounts for those that desire it, without burdening the entire business community with increased costs that would come from enactment of HR 859.

Paying interest on corporate demand deposits will be costly to banks and small businesses. The Federal Reserve, in testimony before the House, has conceded that this proposal would impose additional costs and new regulatory burdens on banks. Total banking costs will increase significantly as a result of the added interest and portfolio restructuring expenses. Banks would have no choice but to pass these increased costs to their customers. Under current law, businesses receive implicit interest in the form of favorable loan terms and free or low fee services. Repeal of the ban on interest on corporate checking would result in higher fees and more expensive credit for businesses.

Our coalition does support the compromise of increasing from six to twenty-four the number of transfers to money market accounts per month, as well as requiring the Federal Reserve to pay interest on sterile reserves. This compromise would effectuate interest on corporate checking for small businesses without new and unnecessary costs. While some in the banking industry support the direct payment of interest on business checking accounts, all of the major commercial bank trade associations support the twenty-four-transaction account alternative. The ability to make twenty-four transaction transfers from a money market account is the wise and obvious compromise.

The prohibition of paying interest on corporate checking accounts was enacted during the Great Depression because of the justifiable fear that money would be siphoned from the community banks to the large city banks. The prohibition has been in effect for seventy years. Commercial banks have structured their balance sheets and systems in accordance with this law. For example, substantial portions of loans are made with initial maturities of five to thirty years. The interest rates being paid on those loans relate to the cost of funds at the time the loans were made. It will take a significant amount of time for those loans to work themselves through.

In addition, small businesses will be hurt if interest on corporate checking were to be enacted. Community commercial banks throughout the country are the lifeblood of small business in America, not large city banks, securities brokerages, or savings banks. If interest is to be paid on corporate checking accounts, the cost must be absorbed somewhere. It will be absorbed in much higher fees for small businesses and higher loan interest rates.

The prohibition of interest on corporate checking should not be lifted now or in the future. Instead, twenty-four transfers should be permitted from a money market account. The "sweep" technology necessary to accomplish this is widely available and affordable. The Independent Community Bankers of America supports this compromise as it effectuates interest on excess corporate checking balances where it would be appropriate. Thrift associations support direct interest being paid on corporate checking balances, but legislators should give little credence to that position, as the thrifts have very little or no commercial balances. Likewise, Securities firms who now have their own banks could stand to benefit by offering interest on corporate checking with little or no fees as a loss leader. What a tragedy this would be, as money would be pulled out of community banks across America into the large brokerage house, the same type of concern that prompted the enactment of this legislation in the first place.

We the undersigned banks urge the Financial Services Committee to approve HR 758 to permit twenty-four monthly transfers and reject HR 859, which would repeal a long standing safeguard and disrupt America's efficient small business funding mechanism.

Thank you for consideration of our views.

Sincerely,

(See Attached List)

The Community Banks listed below oppose the paying of interest on corporate checking.			
Bank	**City**	**State**	**State Count**
Bank of Berry	Berry	AL	
Bank of Carbon Hill	Carbon Hill	AL	
Bank of York	York	AL	
Commonwealth National Bank	Mobile	AL	
Community Spirit Bank	Red Bay	AL	
Farmers & Merchants Bank	Waterloo	AL	
First Bank of Linden	Linden	AL	
First Bank of the South	Rainsville	AL	
First Commercial Bank	Huntsville	AL	
First National Bank	Hartford	AL	
First National Bank	Brewton	AL	
First National Bank of Atmore	Atmore	AL	
First State Bank of Clay County	Lineville	AL	
First State Bank of DeKalb County	Fort Payne	AL	
Frontier National Bank	Lanett	AL	
Merchants & Farmers Bank of Greene C	Eutaw	AL	
Metro Bank	Pell City	AL	
North Alabama Bank	Hazel Green	AL	
Southern Bank of Commerce	Eufaula	AL	
The Citizens Bank	Moulton	AL	
The Citizens Bank of Valley Head	Valley Head	AL	
The Citizens Bank of Winfield	Winfield	AL	
The Exchange Bank of Alabama	Altoona	AL	
The Peoples Bank, Tallassee	Tallassee	AL	
Troy Bank & Trust Co	Troy	AL	
	Alabama		*25*
Denali State Bank	Fairbanks	AK	
	Alaska		*1*
American State Bank	Jonesboro	AR	
Arkansas State Bank	Siloam Springs	AR	
Bank of Amity	Amity	AR	
Bank of Bearden	Bearden	AR	
Bank of Brinkley	Brinkley	AR	
Bank of England	England	AR	
Bank of Eureka Springs	Eureka Springs	AR	
Bank of Evening Shade	Evening Shade	AR	
Bank of Mansfield	Mansfield	AR	
Bank of Prescott	Prescott	AR	
Bank of Rogers	Rogers	AR	
Bank of Salem	Salem	AR	
Chambers Bank	Amity	AR	
Citizens National Bank of Nashville	Nashville	AR	
Cross County Bank	Wynne	AR	
Danville State Bank	Danville	AR	
Eagle Bank and Trust Company	Little Rock	AR	
Farmers Bank	Greenwood	AR	
Farmers Bank and Trust Company	Clarksville	AR	
First Community Bank of Eastern Arkan	Marion	AR	
First National Bank of Altheimer	Altheimer	AR	
First National Bank of Arkansas	De Queen	AR	
First National Bank of Izard County	Calico Rock	AR	
Forrest City Bank, N.A.	Forrest City	AR	
Heber Springs State Bank	Heber Springs	AR	
Helena National Bank	Helena	AR	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Horatio State Bank	Horatio	AR	
Logan County Bank	Scranton	AR	
Merchants & Planters Bank	Clarendon	AR	
Merchants & Planters Bank, National As	Camden	AR	
Piggott State Bank	Piggott	AR	
Simmons First Bank of Dumas	Dumas	AR	
Simmons First Bank of El Dorado, N.A.	El Dorado	AR	
The Bank of Rison	Rison	AR	
The Capital Bank	Little Rock	AR	
The First National Bank of De Witt, Arka	De Witt	AR	
The First National Bank of McGehee	McGehee	AR	
The Peoples Bank	Magnolia	AR	
The Perry County Bank	Perryville	AR	
Warren Bank and Trust Company	Warren	AR	
	Arkansas		*40*
Bank of the Southwest	Tempe	AZ	
Bank of Tucson	Tucson	AZ	
East Valley Community Bank	Chandler	AZ	
Founders Bank of Arizona, Inc.	Scottsdale	AZ	
Heritage Bank	Tempe	AZ	
Mohave State Bank	Lake Havasu C	AZ	
Western Security Bank	Scottsdale	AZ	
	Arizona		*7*
America California Bank	San Francisco	CA	
American Business Bank	Los Angeles	CA	
Asian Pacific National Bank	San Gabriel	CA	
Bank of Agriculture & Commerce	Stockton	CA	
Bank of Alameda	Alameda	CA	
Bank of Madera County	Oakhurst	CA	
Bank of Stockton	Stockton	CA	
Bank of the Orient	San Francisco	CA	
Bank of Ventura	Ventura	CA	
Bank of Whittier, National Association	Whittier	CA	
Bank of Willits	Willits	CA	
California Cho Hung Bank	Los Angeles	CA	
California Pacific Bank	San Francisco	CA	
Camarillo Community Bank	Camarillo	CA	
Canyon National Bank	Palm Springs	CA	
Capital Bank of North County	Carlsbad	CA	
Cedars Bank	Los Angeles	CA	
Cuyamaca Bank, National Association	Santee	CA	
EverTrust Bank	City of Industry	CA	
Farmers & Merchants Bank of Central C	Lodi	CA	
Farmers & Merchants Bank of Long Bea	Long Beach	CA	
Feather River State Bank	Yuba City	CA	
First American Bank	Rosemead	CA	
First Western Bank	Simi Valley	CA	
Gold Country Bank, NA	Marysville	CA	
Goleta National Bank	Goleta	CA	
Hacienda Bank	Santa Maria	CA	
Heritage Oaks Bank	Paso Robles	CA	
Kaweah National Bank	Visalia	CA	
Kerman State Bank	Kerman	CA	
Los Padres Bank	Solvang	CA	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Los Robles Bank	Thousand Oaks	CA	
Merchants Bank of California, National A	Carson	CA	
Metro Commerce Bank	San Rafael	CA	
Metropolitan Bank	Oakland	CA	
Mid-Peninsula Bank	Palo Alto	CA	
Mission Community Bank, N.A.	San Luis Obisp	CA	
Modesto Commerce Bank	Modesto	CA	
Monterey County Bank	Monterey	CA	
Murphy Bank	Fresno	CA	
Neighborhood National Bank	San Diego	CA	
North Valley Bank	Redding	CA	
Palm Desert National Bank	Palm Desert	CA	
Rancho Bank	San Dimas	CA	
Rancho Bernardo Community Bank	San Diego	CA	
Redlands Centennial Bank	Redlands	CA	
Sacramento Commercial Bank	Sacramento	CA	
Saehan Bank	Los Angeles	CA	
Santa Barbara Bank and Trust	Santa Barbara	CA	
Santa Lucia Bank	Atascadero	CA	
Southwest Community Bank	Encinitas	CA	
Stockmans Bank	Elk Grove	CA	
Summit Bank	Oakland	CA	
Taft National Bank	Taft	CA	
Temecula Valley Bank, N.A.	Temecula	CA	
Trans-Pacific National Bank	San Francisco	CA	
United National Bank	Monterey Park	CA	
Universal Bank	West Covina	CA	
Upland Bank	Upland	CA	
	California		*59*
Alamosa National Bank	Alamosa	CO	
Alpine Bank	Glenwood Sprir	CO	
Bank of Burlington	Burlington	CO	
Bank of Grand Junction	Grand Junction	CO	
Colorado Business Bank, National Asso	Denver	CO	
Colorado Springs National Bank	Colorado Sprin	CO	
Commerce Bank	Aurora	CO	
First Mountain Bank	Leadville	CO	
First National Bank, Cortez	Cortez	CO	
First State Bank, Colorado Springs	Colorado Sprin	CO	
First United Bank	Parker	CO	
Front Range Bank	Lakewood	CO	
Home Loan Industrial Bank	Grand Junction	CO	
Horizon Banks	Limon	CO	
Mancos Valley Bank	Mancos	CO	
North Park State Bank	Walden	CO	
Pine River Valley Bank	Bayfield	CO	
Rocky Ford National Bank	Rocky Ford	CO	
The Bank of Durango	Durango	CO	
The Citizens State Bank of Ouray	Ouray	CO	
The First National Bank of Flagler	Flagler	CO	
The First National Bank of Limon	Limon	CO	
The First National Bank of Ordway	Ordway	CO	
The State Bank of Rocky Ford	Rocky Ford	CO	
The State Bank-La Junta	La Junta	CO	

The Community Banks listed below oppose the paying of interest on corporate checking.			
Bank	**City**	**State**	**State Count**
Wray State Bank	Wray	CO	
	Colorado		*26*
Chelsea Groton Savings Bank	Norwich	CT	
Prime Bank	Orange	CT	
Salisbury Bank & Trust Company	Lakeville	CT	
The Canaan National Bank	Canaan	CT	
The Citizens National Bank	Putnam	CT	
The First National Bank of Suffield	Suffield	CT	
The Glastonbury Bank & Trust Compan	Glastonbury	CT	
Thomaston Savings Bank	Thomaston	CT	
Westport National Bank	Westport	CT	
	Connecticut		*9*
The First National Bank of Wyoming	Wyoming	DE	
	Delaware		*1*
The Adams National Bank	Washington	DC	
	Washington DC		*1*
American Bank	Bradenton	FL	
Apalachicola State Bank	Apalachicola	FL	
BankFirst	Winter Park	FL	
Century National Bank	Orlando	FL	
Citrus & Chemical Bank	Bartow	FL	
Columbia County Bank	Lake City	FL	
Community Bank of Florida	Homestead	FL	
Community Bank of Manatee	Bradenton	FL	
Community State Bank of Starke	Starke	FL	
Eagle National Bank	Miami	FL	
Eastern National Bank	Miami	FL	
Englewood Bank	Englewood	FL	
Enterprise National Bank of Palm Beach	North Palm Bea	FL	
Equitable Bank	Fort Lauderdale	FL	
Eurobank	Boca Raton	FL	
First Community Bank of Palm Beach C	Pahokee	FL	
First Florida Bank	Naples	FL	
First National Bank of Alachua	Alachua	FL	
First National Bank of Pasco	Dade City	FL	
First Peoples Bank	Port St. Lucie	FL	
First Western Bank	Cooper City	FL	
Florida Bank of Commerce	Palm Harbor	FL	
Florida Bank, National Association	Jacksonville	FL	
Florida Citizens Bank	Ocala	FL	
Florida Community Bank	Immokalee	FL	
Grand Bank of Florida	West Palm Bea	FL	
Guaranty National Bank of Tallahassee	Tallahassee	FL	
Gulf Bank	Miami	FL	
Gulf Stream Business Bank	Stuart	FL	
Independent Community Bank	Tequesta	FL	
Independent National Bank	Ocala	FL	
Indian River National Bank	Vero Beach	FL	
Kislak National Bank	Miami Lakes	FL	
Liberty National Bank	Longwood	FL	
Manatee River Community Bank	Palmetto	FL	
Manufacturers Bank of Florida	Tampa	FL	
Marine Bank of the Florida Keys	Marathon	FL	
Merchants & Southern Bank	Gainesville	FL	

The Community Banks listed below oppose the paying of interest on corporate checking.			
Bank	**City**	**State**	**State Count**
Millennium Bank	Gainesville	FL	
Palm Beach National Bank & Trust Com	North Palm Bea	FL	
Peoples National Bank of Commerce	Miami	FL	
Peoples State Bank	Lake City	FL	
Premier Community Bank	Venice	FL	
Putnam State Bank	Palatka	FL	
Republic Bank	St. Petersburg	FL	
Sarasota Bank	Sarasota	FL	
Sunniland Bank	Fort Lauderdale	FL	
The Bank	Bristol	FL	
The First National Bank of Homestead	Homestead	FL	
The Peoples Bank of Graceville	Graceville	FL	
The Warrington Bank	Pensacola	FL	
Union Bank of Florida	Lauderhill	FL	
Wauchula State Bank	Wauchula	FL	
	Florida		*53*
Adel Banking Company	Adel	GA	
Bank of Adairsville	Adairsville	GA	
Bank of Camilla	Camilla	GA	
Bank of Chickamauga	Chickamauga	GA	
Bank of Dade	Trenton	GA	
Bank of Danielsville	Danielsville	GA	
Bank of Hancock County	Sparta	GA	
Bank of Lumber City	Lumber City	GA	
Bryan Bank & Trust	Richmond Hill	GA	
Capitol City Bank & Trust Company	Atlanta	GA	
Chestatee State Bank	Dawsonville	GA	
Citizens Trust Bank	Atlanta	GA	
Community Bank & Trust-Habersham	Cornelia	GA	
Community Bank of Georgia	Tucker	GA	
Community Banking Company of Fitzge	Fitzgerald	GA	
Decatur First Bank	Decatur,	GA	
Douglas County Bank	Douglasville	GA	
Durden Banking Co., Inc.	Twin City	GA	
Exchange Bank	Milledgeville	GA	
Farmers & Merchants Bank	Dublin	GA	
Farmers & Merchants Bank	Sylvania	GA	
Farmers & Merchants Bank	Eatonton	GA	
Farmers & Merchants Bank	Lakeland	GA	
First Bank and Trust	Carnesville	GA	
First Bank of Georgia	Thomson	GA	
First Community Bank of Georgia	Roberta	GA	
First National Bank	Folkston	GA	
First National Bank	Waynesboro	GA	
First National Bank of Alma	Alma	GA	
First National Bank of Coffee County	Douglas	GA	
First National Bank of Haralson County	Buchanan	GA	
First National Bank of South Georgia	Albany	GA	
First National Bank of West Point	West Point	GA	
First Piedmont Bank	Winder	GA	
First Port City Bank	Bainbridge	GA	
First Security National Bank	Norcross	GA	
First State Bank of Donalsonville	Donalsonville	GA	
Gainesville Bank & Trust	Gainesville	GA	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Georgia First Bank, National Associatior	Gainesville	GA	
Global Commerce Bank	Doraville	GA	
Greater Rome Bank	Rome	GA	
Greenville Banking Co.	Greenville	GA	
Heritage Community Bank	Quitman	GA	
Lanier National Bank	Gainesville	GA	
Liberty Bank & Trust	Toccoa	GA	
Merchants & Farmers Bank	Comer	GA	
Peoples Bank	Winder	GA	
Peoples Bank & Trust	Buford	GA	
Pinnacle Bank, National Association	Elberton	GA	
Sea Island Bank	Statesboro	GA	
South Georgia Community Bank	Reynolds	GA	
Southern Heritage Bank	Oakwood	GA	
Spivey State Bank	Swainsboro	GA	
SunMark Community Bank	Hawkinsville	GA	
The Bank of Edison	Edison	GA	
The Blackshear Bank	Blackshear	GA	
The Buckhead Community Bank, N.A.	Atlanta	GA	
The Citizens Bank	Fort Valley	GA	
The Citizens Bank	Nashville	GA	
The Citizens Bank of Swainsboro	Swainsboro	GA	
The Citizens Exchange Bank	Pearson	GA	
The Citizens National Bank of Quitman	Quitman	GA	
The Citizens State Bank of Taylor Count	Reynolds	GA	
The Claxton Bank	Claxton	GA	
The Coastal Bank of Georgia	Brunswick	GA	
The Commercial Bank	Crawford	GA	
The Morris State Bank	Dublin	GA	
The Park Avenue Bank	Valdosta	GA	
The Peoples Bank	Eatonton	GA	
The Security State Bank	McRae	GA	
The Summit National Bank	Atlanta	GA	
Thomasville National Bank	Thomasville	GA	
Waycross Bank & Trust	Waycross	GA	
West Central Georgia Bank	Thomaston	GA	
	Georgia		*74*
The Bank of Guam	Agana	GU	
	Guam		*1*
American Interstate Bank	Manning	IA	
American Trust & Savings Bank	Lowden	IA	
Bank Iowa	Red Oak	IA	
Bank Plus	Estherville	IA	
Benton County State Bank	Blairstown	IA	
Citizens Bank	Leon	IA	
City National Bank	Shenandoah	IA	
Columbus Junction State Bank	Columbus Junc	IA	
Cresco Union Savings Bank	Cresco	IA	
Emmet County State Bank	Estherville	IA	
Fairbank State Bank	Fairbank	IA	
Farmers & Merchants Savings Bank	Manchester	IA	
Farmers & Traders Savings Bank	Bancroft	IA	
Farmers Savings Bank	Altoona	IA	
Farmers Savings Bank	Kalona	IA	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Farmers Savings Bank	Halbur	IA	
Farmers Savings Bank	Colesburg	IA	
Farmers Savings Bank & Trust-Traer	Traer	IA	
Farmers Savings Bank & Trust-Vinton	Vinton	IA	
Farmers Trust & Savings Bank	Earling	IA	
First American Bank	Webster City	IA	
First Bank & Trust Co.	Glidden	IA	
First Citizens National Bank	Mason City	IA	
First National Bank	Davenport	IA	
First State Bank	Sioux Rapids	IA	
First State Bank of Colfax	Colfax	IA	
First State Bank of Mapleton	Mapleton	IA	
Fremont County Savings Bank	Sidney	IA	
Gibson Savings Bank	Gibson	IA	
Great River Bank & Trust	Princeton	IA	
Hedrick Savings Bank	Hedrick	IA	
Houghton State Bank	Red Oak	IA	
Iowa Savings Bank	Carroll	IA	
Iowa State Bank	West Bend	IA	
Iowa Trust & Savings Bank	Emmetsburg	IA	
Kerndt Bros. Savings Bank	Lansing	IA	
Libertyville Savings Bank	Libertyville	IA	
Manson State Bank	Manson	IA	
Manufacturers Bank & Trust Company	Forest City	IA	
Maquoketa State Bank	Maquoketa	IA	
Moorhead State Bank	Moorhead	IA	
Panora State Bank	Panora	IA	
Peoples Savings Bank	Montezuma	IA	
Peoples Savings Bank	Elma	IA	
Peoples State Bank	Winfield	IA	
Pioneer Bank	Sergeant Bluff	IA	
Rowley Savings Bank	Rowley	IA	
Security Bank & Trust Co.	Decorah	IA	
Security State Bank	Sheldon	IA	
Security State Bank	Anamosa	IA	
Security Trust & Savings Bank	Storm Lake	IA	
Solon State Bank	Solon	IA	
State Bank of Waverly	Waverly	IA	
State Savings Bank	Rake	IA	
The First National Bank of Logan	Logan	IA	
The First State Bank of Thornton, Iowa	Thornton	IA	
The Grundy National Bank	Grundy Center	IA	
Tri-County Bank & Trust	Cascade	IA	
Union Bank & Trust Company	Strawberry Poir	IA	
Union State Bank	Greenfield	IA	
Union State Bank	Monona	IA	
Union State Bank	Winterset	IA	
Valley State Bank	Guttenberg	IA	
Victor State Bank	Victor	IA	
Watkins Savings Bank	Watkins	IA	
Waukee State Bank	Waukee	IA	
Wayland State Bank	Mount Pleasan	IA	
Western Bank & Trust	Moville	IA	
Westside State Savings Bank	Westside	IA	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
	Iowa		*69*
Mountain West Bank	Coeur d'Alene	ID	
Twin River National Bank	Lewiston	ID	
	Idaho		*2*
1st Community Bank	Sherrard	IL	
Albany Bank and Trust Company, Natio	Chicago	IL	
Andalusia Community Bank	Andalusia	IL	
Archer Bank	Chicago	IL	
Associated Bank Illlinois, National Asso	Rockford	IL	
Austin Bank of Chicago	Chicago	IL	
Ayars State Bank	Moweaqua	IL	
Bank of Bellwood	Bellwood	IL	
Bank of Bourbonnais	Bourbonnais	IL	
Bank of Calhoun County	Hardin	IL	
Bank of Palatine	Palatine	IL	
Bank of Pontiac	Pontiac	IL	
Bank of Sugar Grove	Sugar Grove	IL	
Bank of Waukegan	Waukegan	IL	
Banterra Bank	Marion	IL	
Broadway Bank	Chicago	IL	
Brown County State Bank	Mount Sterling	IL	
Buckley State Bank	Buckley	IL	
Camp Grove State Bank	Camp Grove	IL	
Capstone Bank, National Association	Watseka	IL	
Carlinville National Bank	Carlinville	IL	
Central Federal Savings & Loan	Chicago	IL	
Cerro Gordo Building & Loan, s.b.	Cerro Gordo	IL	
Charter National Bank and Trust	Hoffman Estate	IL	
Chester National Bank	Chester	IL	
Chicago Community Bank	Chicago	IL	
Community Bank of Easton	Easton	IL	
Community Bank of Elmhurst	Elmhurst	IL	
Community Bank of Galesburg	Galesburg	IL	
Community Banks of Shelby County	Cowden	IL	
Community First Bank	Fairview Height	IL	
Continental Community Bank & Trust C	Maywood	IL	
Crystal Lake Bank & Trust Company, N	Crystal Lake	IL	
Delaware Place Bank	Chicago	IL	
East Dubuque Savings Bank	East Dubuque	IL	
Edens Bank	Wilmette	IL	
Elizabeth State Bank	Elizabeth	IL	
Elkville State Bank	Elkville	IL	
Fairview State Banking Co.	Fairview	IL	
Farmers & Merchants Bank of Hutsonvi	Hutsonville	IL	
Farmers National Bank of Griggsville	Griggsville	IL	
Farmers State Bank	Elmwood	IL	
Farmers State Bank of Danforth	Danforth	IL	
Farmers State Bank of Lewiston	Lewistown	IL	
Farmers State Bank of Somonauk	Somonauk	IL	
Fayette County Bank	St. Elmo	IL	
Federated Bank	Onarga	IL	
First Capital Bank	Peoria	IL	
First Community Bank	Xenia	IL	
First Community Bank of Hillsboro	Hillsboro	IL	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
First Crawford State Bank	Robinson	IL	
First Eagle National Bank	Hanover Park	IL	
First Farmers State Bank of Minier	Minier	IL	
First National Bank	Raymond	IL	
First National Bank	Assumption	IL	
First National Bank	Marshall	IL	
First National Bank & Trust Company	Clinton	IL	
First National Bank in Newton	Newton	IL	
First National Bank in Paxton	Paxton	IL	
First National Bank in Pinckneyville	Pinckneyville	IL	
First National Bank of Danville	Danville	IL	
First National Bank of Joliet	Joliet	IL	
First National Bank of Morton Grove	Morton Grove	IL	
First National Bank of Nokomis	Nokomis	IL	
First National Bank of Winnebago	Winnebago	IL	
First Nations Bank of Wheaton	Wheaton	IL	
First Security Bank	Mackinaw	IL	
First Security Trust & Savings Bank	Elmwood Park	IL	
First State Bank and Trust Company of	Palos Hills	IL	
First State Bank of Bloomington	Bloomington	IL	
First State Bank of Dix	Dix	IL	
First State Bank of Round Lake	Round Lake Be	IL	
First State Bank of Winchester, Ill.	Winchester	IL	
First Suburban National Bank	Maywood	IL	
First Trust & Savings Bank	Albany	IL	
First Trust Bank of Shelbyville	Shelbyville	IL	
Forest Park National Bank & Trust Co.	Forest Park	IL	
German-American State Bank	German Valley	IL	
Granville National Bank	Granville	IL	
Hamel State Bank	Hamel	IL	
Herrin Security Bank	Herrin	IL	
Illinois State Bank of Lake in the Hills	Lake in the Hills	IL	
Interstate Bank	Oak Forest	IL	
Iroquois Farmers State Bank	Iroquois	IL	
Lake Forest Bank & Trust Company	Lake Forest	IL	
Lemont National Bank	Lemont	IL	
Longview State Bank	Longview	IL	
Malden State Bank	Malden	IL	
Marine Trust Company of Carthage	Carthage	IL	
Marquette National Bank	Chicago	IL	
Marseilles Bank National Association	Marseilles	IL	
Marshall County State Bank	Varna	IL	
McHenry Savings Bank	McHenry	IL	
Mercantile Trust & Savings Bank	Quincy	IL	
Merchants and Manufacturers Bank	Joliet	IL	
Metropolitan Bank & Trust Company	Chicago	IL	
Midland Community Bank	Kincaid	IL	
Midwest Bank and Trust Company	Elmwood Park	IL	
Midwest Bank of Western Illinois	Monmouth	IL	
Mount Prospect National Bank	Mount Prospec	IL	
Municipal Trust and Savings Bank	Bourbonnais	IL	
National Bank of Commerce	Berkeley	IL	
National Bank of Earlville	Earlville	IL	
National Bank of St. Anne	St. Anne	IL	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
North Community Bank	Chicago	IL	
NorthSide Community Bank	Gurnee	IL	
Oak Brook Bank	Oak Brook	IL	
Oak Trust and Savings Bank	Chicago	IL	
Pacific Global Bank	Chicago	IL	
Park Ridge Community Bank	Park Ridge	IL	
Pekin Savings Bank	Pekin	IL	
Peotone Bank and Trust Company	Peotone	IL	
Plaza Bank	Norridge	IL	
Pontiac National Bank	Pontiac	IL	
Port Byron State Bank	Port Byron	IL	
Prairie Bank and Trust Company	Bridgeview	IL	
Prairie State Bank	Marengo	IL	
Republic Bank of Chicago	Darien	IL	
Rock River Bank	Oregon	IL	
Royal American Bank	Inverness	IL	
Schuyler State Bank	Rushville	IL	
Security National Bank	Witt	IL	
South Central Bank & Trust Company	Chicago	IL	
South Holland Trust and Savings Bank	South Holland	IL	
South Pointe Bank	Marion	IL	
Standard Bank and Trust Company	Evergreen Park	IL	
State Bank of Ashland	Ashland	IL	
State Bank of Chrisman	Chrisman	IL	
State Bank of Countryside	Countryside	IL	
State Bank of Herscher	Herscher	IL	
State Bank of Industry	Industry	IL	
State Bank of Saunemin	Saunemin	IL	
State Bank of Whittington	Benton	IL	
Suburban Bank & Trust Company	Elmhurst	IL	
Success National Bank	Lincolnshire	IL	
Sumner National Bank of Sheldon	Sheldon	IL	
Texico State Bank	Texico	IL	
The Bank of Carbondale	Carbondale	IL	
The Bank of Herrin	Herrin	IL	
The Belvidere National Bank & Trust Co	Belvidere	IL	
The Casey National Bank	Casey	IL	
The Community Bank of Ravenswood	Chicago	IL	
The Egyptian State Bank	Carriers Mills	IL	
The First Bank & Trust Company of Mur	Murphysboro	IL	
The First Commercial Bank	Chicago	IL	
The First National Bank of Dieterich	Dieterich	IL	
The First National Bank of Gilman	Gilman	IL	
The First National Bank of Grant Park	Grant Park	IL	
The Foster Bank	Chicago	IL	
The Gerber State Bank	Argenta	IL	
The Mid-City National Bank of Chicago	Chicago	IL	
The National State Bank of Metropolis	Metropolis	IL	
The State Bank of Jerseyville	Jerseyville	IL	
The State Bank of Lima	Lima	IL	
The State Bank of Pearl City	Pearl City	IL	
The Village Bank	St. Libory	IL	
Union National Bank	Elgin	IL	
University National Bank	Chicago	IL	

The Community Banks listed below oppose the paying of interest on corporate checking.			
Bank	**City**	**State**	**State Count**
Uptown National Bank of Chicago	Chicago	IL	
Valley Community Bank	St. Charles	IL	
Village Bank and Trust	North Barringto	IL	
Village Bank and Trust Arlington Heights	Prospect Heigh	IL	
Wabash Savings Bank	Mount Carmel	IL	
Warren-Boynton State Bank	New Berlin	IL	
Washington State Bank	Washington	IL	
Westbank	Westchester	IL	
Whaples & Farmers State Bank	Neponset	IL	
Worth Bank & Trust	Worth	IL	
	Illinois		***168***
American Trust & Savings Bank	Whiting	IN	
Greensfork Township State Bank	Spartanburg	IN	
Lafayette Bank and Trust Company	Lafayette	IN	
Linden State Bank	Linden	IN	
Salin Bank & Trust Company	Indianapolis	IN	
Spencer County Bank	Santa Claus	IN	
The First National Bank of Fremont	Fremont	IN	
The First National Bank of Odon	Odon	IN	
The Knisely National Bank of Butler	Butler	IN	
The Merchants Bank & Trust Co.	West Harrison	IN	
The New Washington State Bank	New Washingto	IN	
The Scott County State Bank	Scottsburg	IN	
The Union County National Bank of Libe	Liberty	IN	
Wayne Bank and Trust Co.	Cambridge City	IN	
	Indiana		***14***
Alta Vista State Bank	Alta Vista	KS	
Baileyville State Bank	Seneca	KS	
Bank of Kansas	South Hutchins	KS	
Bank of McLouth	McLouth	KS	
Bank of Perry	Perry	KS	
Bison State Bank	Bison	KS	
Caney Valley National Bank	Caney	KS	
Citizens State Bank	Geneseo	KS	
Citizens State Bank	Hugoton	KS	
Ellis State Bank	Ellis	KS	
Farmers & Drovers Bank	Council Grove	KS	
Farmers & Merchants State Bank	Argonia	KS	
Farmers & Merchants State Bank	Wakefield	KS	
Farmers and Merchants Bank of Hill City	Hill City	KS	
Farmers State Bank	Fairview	KS	
Farmers State Bank	McPherson	KS	
Farmers State Bank	Phillipsburg	KS	
First National Bank in Fredonia	Fredonia	KS	
First National Bank of Beloit	Beloit	KS	
First Security Bank	Overbrook	KS	
First State Bank	Norton	KS	
Fowler State Bank	Fowler	KS	
Garden Plain State Bank	Wichita	KS	
Greensburg State Bank	Greensburg	KS	
Hanston State Bank	Hanston	KS	
Kansas State Bank	Garnett	KS	
Lyndon State Bank	Lyndon	KS	
Midland National Bank	Newton	KS	

The Community Banks listed below oppose the paying of interest on corporate checking.			
Bank	**City**	**State**	**State Count**
Peoples Bank, National Association	Coldwater	KS	
Peoples National Bank & Trust	Ottawa	KS	
Security National Bank	Manhattan	KS	
Sedgwick State Bank	Sedgwick	KS	
St. John National Bank	St. John	KS	
St. Marys State Bank	St. Marys	KS	
State Bank of Burden	Burden	KS	
State Bank of Carbondale	Carbondale	KS	
State Bank of Fredonia	Fredonia	KS	
State Bank of Leon	Leon	KS	
Stockgrowers State Bank	Maple Hill	KS	
The Baxter State Bank	Baxter Springs	KS	
The Farmers & Merchants Bank of Colb	Colby	KS	
The Farmers National Bank	Osborne	KS	
The First National Bank of Southern Kar	Mount Hope	KS	
The First State Bank of Burlingame	Burlingame	KS	
The Freeport State Bank	Harper	KS	
The Marquette Farmers State Bank	Marquette	KS	
The Nekoma State Bank	La Crosse	KS	
The Peoples State Bank	Minneola	KS	
The State Bank of Lebo	Lebo	KS	
The Troy State Bank	Troy	KS	
Towanda State Bank	Towanda	KS	
	Kansas		***51***
Bank of Buffalo	Buffalo	KY	
Bank of Caneyville	Caneyville	KY	
Bank of Clarkson	Clarkson	KY	
Bank of Lowes	Lowes	KY	
Bank of the Bluegrass & Trust Company	Lexington	KY	
Bedford Loan & Deposit Bank	Bedford	KY	
Citizens Bank	Morehead	KY	
Citizens Bank & Trust Co. of Jackson	Jackson	KY	
Citizens Bank & Trust Company	Campbellsville	KY	
Citizens National Bank	Russellville	KY	
Citizens National Bank of Somerset	Somerset	KY	
Citizens State Bank	Wickliffe	KY	
Commonwealth Bank and Trust Compa	Louisville	KY	
Commonwealth Community Bank, Inc.	Hartford	KY	
Cumberland Security Bank, Inc.	Somerset	KY	
First Kentucky Bank	Sturgis	KY	
First National Bank	Sandy Hook	KY	
First National Bank	Jackson	KY	
First National Bank and Trust	London	KY	
First Security Bank and Trust, McLean	Island	KY	
First Security Bank of Lexington, Inc	Lexington	KY	
First Security Bank of Owensboro, Inc.	Owensboro	KY	
First State Bank	Irvington	KY	
Fulton Bank	Fulton	KY	
Heritage Bank of Ashland, Inc.	Ashland	KY	
Kentucky Home Bank, Inc.	Bardstown	KY	
Kentucky National Bank	Elizabethtown	KY	
Kentucky National Bank of Pikeville	Pikeville	KY	
Lewisburg Banking Company	Lewisburg	KY	
Peoples Bank	Morehead	KY	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Peoples Security Bank	Louisa	KY	
Peoples State Bank	Chaplin	KY	
Stock Yards Bank & Trust Company	Louisville	KY	
The Bank of Harlan	Harlan	KY	
The Casey County Bank	Liberty	KY	
The Farmers National Bank of Cynthian	Cynthiana	KY	
The First National Bank	Carrollton	KY	
The Paducah Bank & Trust Company	Paducah	KY	
The Peoples Bank	Marion	KY	
The Peoples Bank of Bullitt County	Shepherdsville	KY	
The Springfield State Bank	Springfield	KY	
United Citizens Bank & Trust Company	Campbellsburg	KY	
Whitaker Bank, National Association	Lexington	KY	
	Kentucky		***43***
Bank of Coushatta	Coushatta	LA	
Bank of Gueydan	Gueydan	LA	
Bank of Lecompte	Lecompte	LA	
Bank of Louisiana	Metairie	LA	
Bank of Montgomery	Montgomery	LA	
Bank of Sunset & Trust Company	Sunset	LA	
Cameron State Bank	Lake Charles	LA	
Church Point Bank & Trust Company	Church Point	LA	
Citizens Bank & Trust Company	Plaquemine	LA	
City Bank and Trust Company	Natchitoches	LA	
Community Bank of Louisiana	Mansfield	LA	
Feliciana Bank & Trust Company	Clinton	LA	
First American Bank & Trust	Vacherie	LA	
First National Bank - USA	Boutte	LA	
First National Bank in De Ridder	De Ridder	LA	
First National Bank of Benton	Benton	LA	
Guaranty Bank & Trust Company of Del	Delhi	LA	
Jackson Parish Bank	Jonesboro	LA	
Jonesboro State Bank	Jonesboro	LA	
Kaplan State Bank	Kaplan	LA	
M C Bank & Trust Co.	Morgan City	LA	
Merchants & Farmers Bank	Melville	LA	
Merchants & Farmers Bank & Trust Co.	Leesville	LA	
Metro Bank	Kenner	LA	
Mississippi River Bank	Belle Chasse	LA	
Parish National Bank	Covington	LA	
Patterson State Bank	Patterson	LA	
Peoples Bank	Chatham	LA	
Peoples Bank of Louisiana	Amite	LA	
Progressive National Bank of Desoto Pa	Mansfield	LA	
Red River Bank	Alexandria	LA	
Resource Bank	Mandeville	LA	
Schwegmann Bank & Trust Company	Harvey	LA	
St. Martin Bank & Trust Company	St. Martinville	LA	
Tensas State Bank	Newellton	LA	
The Bank of Commerce	White Castle	LA	
The Business Bank of Baton Rouge	Baton Rouge	LA	
The Evangeline Bank & Trust Company	Ville Platte	LA	
The Farmers Bank & Trust of Cheneyvil	Cheneyville	LA	
The Mer Rouge State Bank	Mer Rouge	LA	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
United Community Bank	Gonzales	LA	
Vermilion Bank & Trust Company	Kaplan	LA	
Washington State Bank	Washington	LA	
West Carroll Community Bank	Oak Grove	LA	
Winnsboro State Bank & Trust Co.	Winnsboro	LA	
	Louisiana		***45***
Beverly National Bank	Beverly	MA	
Bridgewater Savings Bank	Bridgewater	MA	
Brookline Co-Operative Bank	Brookline	MA	
Cambridge Trust Company	Cambridge	MA	
Canton Co-Operative Bank	Canton	MA	
Century Bank and Trust Company	Medford	MA	
Charter Bank, A Co-Operative Bank	Waltham	MA	
Chelsea-Provident Co-Operative	Chelsea	MA	
Community National Bank	Hudson	MA	
Danvers Savings Bank	Danvers	MA	
Dedham Co-Operative Bank	Dedham	MA	
Enterprise Bank and Trust Company	Lowell	MA	
Greenfield Savings Bank	Greenfield	MA	
Lee Bank	Lee	MA	
Liberty Bank and Trust Company	Boston	MA	
Luzo Community Bank	New Bedford	MA	
Medway Co-Operative Bank	Medway	MA	
North Middlesex Savings Bank	Ayer	MA	
Pilgrim Co-Operative Bank	Cohasset	MA	
Rockland Savings Bank	Rockland	MA	
Roxbury-Highland Co-Operative Bank	Jamaica Plain	MA	
Summit Bank	Medway	MA	
The Boston Bank of Commerce	Boston	MA	
The Community Bank	Brockton	MA	
The First National Bank of Ipswich	Ipswich	MA	
The National Grand Bank of Marblehead	Marblehead	MA	
Wellesley Co-Operative Bank	Wellesley	MA	
Winchester Co-Operative Bank	Winchester	MA	
Wrentham Co-Operative Bank	Wrentham	MA	
	Massachusettes		***29***
Annapolis National Bank	Annapolis	MD	
Bank of Ocean City	Ocean City	MD	
County First Bank	La Plata	MD	
County National Bank	Glen Burnie	MD	
Damascus Community Bank	Damascus	MD	
Eagle Bank	Bethesda	MD	
Farmers & Merchants Bank	Upperco	MD	
Harford National Bank	Aberdeen	MD	
Peninsula Bank	Princess Anne	MD	
Potomac Valley Bank	Gaithersburg	MD	
Provident Bank of Maryland	Baltimore	MD	
The Bank of Delmarva, N.A.	Delmar	MD	
The Bank of Glen Burnie	Glen Burnie	MD	
	Maryland		***13***
Camden National Bank	Camden	ME	
Coastal Bank	Portland	ME	
Merrill Merchants Bank	Bangor	ME	
Pepperell Trust Company	Biddeford	ME	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
The First National Bank of Damariscotta	Damariscotta	ME	
	Maine		5
Baybank	Gladstone	MI	
Central Savings Bank	Sault Ste. Mari	MI	
Citizens State Bank	New Baltimore	MI	
Community Bank	Caro	MI	
First Bank, Upper Michigan	Gladstone	MI	
First Independence National Bank of De	Detroit	MI	
First State Bank	Decatur	MI	
Grand Bank	Grand Rapids	MI	
Greenville Community Bank	Greenville	MI	
Honor State Bank	Honor	MI	
Huron National Bank	Rogers City	MI	
Independent Bank-West Michigan	Rockford	MI	
MFC First National Bank	Escanaba	MI	
Michigan Heritage Bank	Novi	MI	
Midwest Guaranty Bank	Troy	MI	
Monroe Bank & Trust	Monroe	MI	
Montrose State Bank	Montrose	MI	
North Country Bank and Trust	Traverse City	MI	
Peoples State Bank	Munising	MI	
The Farwell State Savings Bank	Farwell	MI	
The First National Bank of Three Rivers	Three Rivers	MI	
The Miners State Bank of Iron River	Iron River	MI	
The State Savings Bank	Frankfort	MI	
Tri-County Bank	Brown City	MI	
West Michigan Community Bank	Hudsonville	MI	
	Michigan		25
1st American State Bank of Minnesota	Hancock	MN	
American Bank	St. Paul	MN	
Bank of Elk River	Elk River	MN	
Bank of Maple Plain	Maple Plain	MN	
BNC National Bank	Minneapolis	MN	
Cambridge State Bank	Cambridge	MN	
Capital Bank	St. Paul	MN	
Citizens Bank & Trust Company	Hutchinson	MN	
Citizens State Bank of Norwood Young	Norwood Youn	MN	
Citizens State Bank of Shakopee	Shakopee	MN	
Currie State Bank	Currie	MN	
Eagle Bank	Glenwood	MN	
Farmers & Merchants State Bank	Alpha	MN	
Farmers & Merchants State Bank of Ne	New York Mills	MN	
Farmers and Merchants State Bank of B	Blooming Prairi	MN	
Farmers State Bank of Dent	Dent	MN	
Farmers State Bank of Hamel	Hamel	MN	
Farmers State Bank of Hoffman	Hoffman	MN	
Farmers State Bank of Trimont	Trimont	MN	
Fidelity Bank	Edina	MN	
First Commercial Bank	Bloomington	MN	
First Community Bank Silver Lake	Silver Lake	MN	
First Minnetonka City Bank	Minnetonka	MN	
First National Bank of Fairfax	Fairfax	MN	
First National Bank	Moose Lake	MN	
First National Bank	Cold Spring	MN	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
First National Bank	Bovey	MN	
First National Bank	Hawley	MN	
First National Bank of Blue Earth	Blue Earth	MN	
First National Bank of The Lakes	Navarre	MN	
First Security Bank-Sanborn	Sanborn	MN	
First State Bank	Ashby	MN	
First State Bank	Murdock	MN	
First State Bank	Floodwood	MN	
First State Bank	Sauk Centre	MN	
First State Bank of Alexandria-Carlos	Alexandria	MN	
First State Bank of Audubon	Audubon	MN	
First State Bank of Bayport	Bayport	MN	
First State Bank of Finlayson	Finlayson	MN	
First State Bank of Grove City	Grove City	MN	
First State Bank of Pipestone	Pipestone	MN	
First State Bank of St. Joseph	St. Joseph	MN	
First State Bank of Wabasha	Wabasha	MN	
First State Bank of Wyoming	Wyoming	MN	
Frost State Bank	Frost	MN	
Hardwick State Bank	Hardwick	MN	
Home State Bank	Kandiyohi	MN	
Landmark Community Bank NA	Isanti	MN	
Lino Lakes State Bank	Lino Lakes	MN	
M & I Bank	Eden Prairie	MN	
Marshall County State Bank	Newfolden	MN	
MinnStar Bank National Association	Lake Crystal	MN	
North Carolina National Bank of Minnes	Minneapolis	MN	
Odin State Bank	Odin	MN	
Olmsted National Bank	Rochester	MN	
Park State Bank	Duluth	MN	
Peoples Bank of Commerce	Cambridge	MN	
Premier Bank	Maplewood	MN	
Randall State Bank	Randall	MN	
Republic Bank, Inc.	Duluth	MN	
Rushford State Bank	Rushford	MN	
Security Bank and Trust Company	Glencoe	MN	
Security Bank Minnesota	Albert Lea	MN	
Security Bank USA	Bemidji	MN	
Security State Bank	Aitkin	MN	
Security State Bank of Sebeka	Sebeka	MN	
St. Martin National Bank	St. Martin	MN	
State Bank of Cyrus	Cyrus	MN	
State Bank of Easton	Easton	MN	
State Bank of Jeffers	Jeffers	MN	
State Bank of Lucan	Lucan	MN	
State Bank of New Richland	New Richland	MN	
Stearns Bank Canby National Associatio	Canby	MN	
The First National Bank in Cannon Falls	Cannon Falls	MN	
The First National Bank of Fairfax	Fairfax	MN	
The Gary State Bank	Gary	MN	
The State Bank of Faribault	Faribault	MN	
Union Bank & Trust Company	Minneapolis	MN	
Union State Bank	Browns Valley	MN	
United Minnesota Bank	New London	MN	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Valley State Bank of Oslo	Oslo	MN	
Winthrop State Bank	Winthrop	MN	
Woodland Bank	Remer	MN	
	Minnesota		*83*
Adrian Bank	Adrian	MO	
Bank of Bloomsdale	Bloomsdale	MO	
Bank of Bolivar	Bolivar	MO	
Bank of Cairo and Moberly	Moberly	MO	
Bank of Creighton	Creighton	MO	
Bank of Grain Valley	Grain Valley	MO	
Bank of Iberia	Iberia	MO	
Bank of Leeton	Leeton	MO	
Bank of Minden	Mindenmines	MO	
Bank of Monticello	Monticello	MO	
Bank of Odessa	Odessa	MO	
Bank of Rothville	Rothville	MO	
Bank Star	Pacific	MO	
Belgrade State Bank	Belgrade	MO	
Blue Ridge Bank and Trust Co.	Kansas City	MO	
Bunceton State Bank	Bunceton	MO	
Carroll County Trust Co.	Carrollton	MO	
Cass Commercial Bank	Bridgeton	MO	
Central Bank of Kansas City	Kansas City	MO	
Chester National Bank of Missouri	Perryville	MO	
Citizens Bank and Trust Company	Chillicothe	MO	
Citizens Bank Edina	Edina	MO	
Citizens Bank of Charleston	Charleston	MO	
Citizens Bank of Princeton	Princeton	MO	
Commercial Trust Co.	Fayette	MO	
Community Bank of Marshall	Marshall	MO	
Community First National Bank of West	West Plains	MO	
Concord Bank	St. Louis	MO	
Concordia Bank	Concordia	MO	
Exchange Bank	Mound City	MO	
Exchange Bank of Missouri	Fayette	MO	
Exchange Bank of Northeast Missouri	Kahoka	MO	
Farley State Bank	Parkville	MO	
Farmers & Commercial Bank	Holden	MO	
Farmers & Merchants Bank and Trust C	Hannibal	MO	
Farmers State Bank Stanberry	Stanberry	MO	
First Commercial Bank	Gideon	MO	
First Community Bank of Taney County	Branson	MO	
First Midwest Bank of Dexter	Dexter	MO	
First National Bank of Clinton	Clinton	MO	
Founders Bank	Chesterfield	MO	
Garden City Bank	Garden City	MO	
Home Exchange Bank of Jamesport	Jamesport	MO	
Hometown Bank, National Association	Carthage	MO	
Horizon State Bank	Cameron	MO	
Investors Federal Bank, National Associ	Chillicothe	MO	
Jefferson Bank & Trust Co.	St. Louis	MO	
Jonesburg State Bank	Jonesburg	MO	
Kennett National Bank	Kennett	MO	
Lawson Bank	Lawson	MO	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Montrose Savings Bank	Montrose	MO	
Napoleon Bank	Napoleon	MO	
Peoples Bank and Trust Company of Lir	Troy	MO	
Pioneer Bank and Trust Company	Maplewood	MO	
Platte Valley Bank of Missouri	Platte City	MO	
Reliance Bank	Des Peres	MO	
Rockwood Bank	Eureka	MO	
Security Bank	Rich Hill	MO	
St. Clair County State Bank	Osceola	MO	
State Bank of Southwest Missouri	Springfield	MO	
The Bank of Missouri	Perryville	MO	
The Citizens Bank of Pilot Grove	Pilot Grove	MO	
The Corner Stone Bank	South West Cit	MO	
The First National Bank of St. Louis	Clayton	MO	
The Hamilton Bank	Hamilton	MO	
The Mercantile Bank of Louisiana, Miss	Louisiana	MO	
The Missouri Bank	Warrenton	MO	
Truman Bank	St. Louis	MO	
United State Bank	Lewistown	MO	
Webb City Bank	Webb City	MO	
Wells Bank of Platte City	Platte City	MO	
Winterset State Bank	Harrisonville	MO	
	Missouri		***72***
Bank of Commerce	Greenwood	MS	
Bank of Holly Springs	Holly Springs	MS	
Bank of Jones County	Laurel	MS	
Bank of Okolona	Okolona	MS	
Bank of Walnut Grove	Walnut Grove	MS	
Bank of Wiggins	Wiggins	MS	
Citizens State Bank	Magee	MS	
Community Bank of Mississippi	Forest	MS	
Citizens Bank	Columbia	MS	
Community Bank, Ellisville	Ellisville	MS	
Farmers & Merchants Bank	Baldwyn	MS	
First American Bank	Jackson	MS	
First American National Bank	Iuka	MS	
First National Bank of Holmes County	Lexington	MS	
First National Bank of Picayune	Picayune	MS	
First Security Bank	Batesville	MS	
First State Bank	Waynesboro	MS	
First State Bank	Holly Springs	MS	
Magnolia State Bank	Bay Springs	MS	
Merchants Marine Bank	Pascagoula	MS	
Newton County Bank	Newton	MS	
Peoples Bank & Trust Co.	North Carrollto	MS	
Spirit Bank	Belmont	MS	
The Bank of Bolivar County	Shelby	MS	
The Carthage Bank	Carthage	MS	
The Citizens Bank	Philadelphia	MS	
The First National Bank of South Missis	Hattiesburg	MS	
Walthall Citizens Bank	Tylertown	MS	
	Mississippi		***28***
Blackfeet National Bank	Browning	MT	
Citizens Bank & Trust Co	Big Timber	MT	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
First Bank of Lincoln	Lincoln	MT	
First Citizens Bank of Butte	Butte	MT	
First Citizens Bank of Polson	Polson	MT	
First National Bank of Fairfield	Fairfield	MT	
First Security Bank of Deer Lodge	Deer Lodge	MT	
First Security Bank of Roundup	Roundup	MT	
First Security Bank of West Yellowstone	West Yellowsto	MT	
First Valley Bank	Seeley Lake	MT	
Glacier Bank	Kalispell	MT	
Glacier Bank of Whitefish	Whitefish	MT	
Lake County Bank	St. Ignatius	MT	
Ronan State Bank	Ronan	MT	
Ruby Valley National Bank	Twin Bridges	MT	
State Bank of Townsend	Townsend	MT	
Stockmens Bank	Cascade	MT	
The Citizens State Bank of Choteau	Choteau	MT	
The First National Bank of Ekalaka	Ekalaka	MT	
Three Rivers Bank of Montana	Kalispell	MT	
United Bank, National Association	Absarokee	MT	
Valley Bank of Kalispell	Kalispell	MT	
Western Bank of Chinook, National Ass	Chinook	MT	
Western Bank of Wolf Point	Wolf Point	MT	
	Montana		***24***
Avery County Bank	Newland	NC	
Bank of the Carolinas	Landis	NC	
Carolina Community Bank	Brevard	NC	
First Gaston Bank of North Carolina	Gastonia	NC	
First Trust Bank	Charlotte	NC	
High Point Bank and Trust Company	High Point	NC	
Independence Bank	Kernersville	NC	
Mechanics and Farmers Bank	Durham	NC	
National Bank of Commerce	Durham	NC	
Randolph Bank & Trust Company	Asheboro	NC	
Roanoke Rapids Savings Bank, SSB	Roanoke Rapid	NC	
Stone Street Bank & Trust	Mocksville	NC	
United National Bank	Fayetteville	NC	
	North Carolina		***13***
Alerus Financial	Grand Forks	ND	
Bank of Glen Ullin	Glen Ullin	ND	
Bank of Hazelton	Hazelton	ND	
Bank of Turtle Lake	Turtle Lake	ND	
BNC National Bank	Bismarck	ND	
Citizens State Bank-Midwest	Cavalier	ND	
Dakota Western Bank	Bowman	ND	
Drayton State Bank	Drayton	ND	
Farmers State Bank of Crosby	Crosby	ND	
First National Bank	Milnor	ND	
First Security Bank-West	Beulah	ND	
First State Bank of Harvey	Harvey	ND	
Grant County State Bank	Carson	ND	
Kirkwood Bank and Trust Co	Bismarck	ND	
Lakeside State Bank	New Town	ND	
McKenzie County Bank	Watford City	ND	
Peoples State Bank	Fairmount	ND	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
The Bank of Tioga	Tioga	ND	
The Goose River Bank	Mayville	ND	
The Union Bank	Beulah	ND	
United Community Bank of North Dakot	Leeds	ND	
Walhalla State Bank	Walhalla	ND	
	North Dakota		22
Adams Bank & Trust	Ogallala	NE	
American Exchange Bank	Elmwood	NE	
American National Bank	Omaha	NE	
Bank of Clarks	Clarks	NE	
Bank of Lindsay	Lindsay	NE	
Bank of Orchard	Orchard	NE	
Bank of St. Edward	St. Edward	NE	
Bank of Steinauer	Steinauer	NE	
Bank of Wood River	Wood River	NE	
Bank of the Valley	Bellwood	NE	
Banner County Bank	Harrisburg	NE	
Cedar Rapids State Bank	Cedar Rapids	NE	
Central Bank	Central City	NE	
Coleridge National Bank	Coleridge	NE	
Columbus Bank & Trust Company	Columbus	NE	
Commercial Bank	Bassett	NE	
Commercial Bank	Nelson	NE	
Commercial Bank	Stratton	NE	
Commercial State Bank	Republican City	NE	
Community Bank	Alma	NE	
Curtis State Bank	Curtis	NE	
Dakota County State Bank	South Sioux Cit	NE	
Farmers & Merchants Bank	Axtell	NE	
Farmers & Merchants State Bank of Wa	Wayne	NE	
Farmers State Bank	Wallace	NE	
Farmers State Bank	Silver Creek	NE	
Farmers State Bank	Humphrey	NE	
Farmers State Bank of Nebraska	Bennet	NE	
Farnam Bank	Farnam	NE	
First Bank and Trust Company	Cozad	NE	
First Central Bank	Cambridge	NE	
First National Bank	Friend	NE	
First National Bank	Unadilla	NE	
First National Bank	Fairbury	NE	
First National Bank	Schuyler	NE	
First National Bank	Wahoo	NE	
First National Bank	Bancroft	NE	
First National Bank & Trust of Fullerton	Fullerton	NE	
First State Bank	Shelton	NE	
First State Bank	Randolph	NE	
Harvard State Bank	Harvard	NE	
Hastings State Bank	Hastings	NE	
Kimball County Bank	Bushnell	NE	
Midwest Bank National Association	Pierce	NE	
Oak Creek Valley Bank	Valparaiso	NE	
Pender State Bank	Pender	NE	
Petersburg State Bank	Petersburg	NE	
Pinnacle Bank	Lincoln	NE	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Platte Center Bank	Platte Center	NE	
Platte Valley Bank	North Bend	NE	
Security First Bank	Sidney	NE	
Security National Bank of Omaha	Omaha	NE	
Security State Bank	Ansley	NE	
Sherman County Bank	Loup City	NE	
Spalding City Bank	Spalding	NE	
State Bank of Cairo	Cairo	NE	
State Bank of Riverdale	Riverdale	NE	
State Bank of Table Rock	Table Rock	NE	
Stockmans National Bank	Rushville	NE	
The Farmers Bank	Oconto	NE	
The First National Bank of Marquette	Marquette	NE	
The First National Bank of Valentine	Valentine	NE	
The Hershey State Bank	Hershey	NE	
The Tilden Bank	Tilden	NE	
Western State Bank	Waterloo	NE	
Winside State Bank	Winside	NE	
	Nebraska		*66*
Lancaster National Bank	Lancaster	NH	
Ledyard National Bank	Hanover	NH	
Village Bank & Trust Company	Gilford	NH	
	New Hampshire		*3*
Amboy National Bank	Old Bridge	NJ	
Atlantic Stewardship Bank	Midland Park	NJ	
City National Bank of New Jersey	Newark	NJ	
Community Bank of New Jersey	Freehold	NJ	
Community State Bank	Teaneck	NJ	
Equity Bank, National Association	Atco	NJ	
First Bank of Central Jersey	North Brunswic	NJ	
Grand Bank, N.A.	Kingston	NJ	
Great Falls Bank	Totowa	NJ	
Hudson United Bank	Mahwah	NJ	
Interchange Bank	Saddle Brook	NJ	
Lakeland Bank	Newfoundland	NJ	
Minotola National Bank	Vineland	NJ	
New Millennium Bank	New Brunswick	NJ	
Newfield National Bank	Newfield	NJ	
Phillipsburg National Bank and Trust Co	Phillipsburg	NJ	
Shore Community Bank	Toms River	NJ	
Shrewsbury State Bank	Shrewsbury	NJ	
Sussex County State Bank	Franklin	NJ	
The Bank of the Somerset Hills	Bernardsville	NJ	
The First National Bank of Absecon	Absecon	NJ	
The National Bank of Sussex County	Branchville	NJ	
The Newton Trust Company	Newton	NJ	
The Town Bank of Westfield	Westfield	NJ	
The Yardville National Bank	Trenton	NJ	
United Heritage Bank	Edison	NJ	
	New Jersey		*26*
AmBank	Silver City	NM	
International Bank	Raton	NM	
New Mexico Bank & Trust	Albuquerque	NM	
Ranchers Banks	Belen	NM	

The Community Banks listed below oppose the paying of interest on corporate checking.			
Bank	**City**	**State**	**State Count**
The Citizens Bank of Clovis	Clovis	NM	
Valley Bank of Commerce	Roswell	NM	
Western Commerce Bank	Carlsbad	NM	
	New Mexico		**7**
Bank of Commerce	Las Vegas	NV	
BankWest of Nevada	Las Vegas	NV	
Desert Community Bank	Las Vegas	NV	
First National Bank of Ely	Ely	NV	
Great Basin Bank of Nevada	Elko	NV	
Heritage Bank of Nevada	Reno	NV	
Sun West Bank	Las Vegas	NV	
	Nevada		**7**
Adirondack Bank, National Association	Utica	NY	
Alliance Bank, N.A.	Oneida	NY	
Ballston Spa National Bank	Ballston Spa	NY	
Bank of Akron	Akron	NY	
Bank of Avoca	Avoca	NY	
Bank of Cattaraugus	Cattaraugus	NY	
Bank of Holland	Holland	NY	
Bank of Millbrook	Millbrook	NY	
Bank of Smithtown	Smithtown	NY	
Broadway National Bank	New York City (	NY	
Cattaraugus County Bank	Little Valley	NY	
Cayuga Lake National Bank	Union Springs	NY	
Citizens Bank of Cape Vincent	Cape Vincent	NY	
City National Bank & Trust Company	Gloversville	NY	
Community Bank of Sullivan County	Monticello	NY	
Community Bank, National Association	DeWitt	NY	
Country Bank	Carmel	NY	
Ellenville National Bank	Ellenville	NY	
Evans National Bank	Angola	NY	
Evergreen Bank, National Association	Glens Falls	NY	
Excel Bank, N.A.	New York City	NY	
Financial Institutions, Inc.	Warsaw	NY	
First Central Savings Bank	New York City (	NY	
First State Bank	Canisteo	NY	
Glens Falls National Bank and Trust Co	Glens Falls	NY	
Habib American Bank	NYC	NY	
Herkimer County Trust Co.	Little Falls	NY	
Hudson Valley Bank	Yonkers	NY	
Independent Bankers Associations of N	Albany	NY	
Intervest National Bank	New York City	NY	
Long Island Commercial Bank	Islandia	NY	
NBT Bank, National Association	Norwich	NY	
New York National Bank	New York City	NY	
Orange County Trust Company	Middletown	NY	
Redwood National Bank	Alexandria Bay	NY	
Richmond County Savings Bank	Staten Island	NY	
Riverside Bank	Poughkeepsie	NY	
Saratoga National Bank and Trust Comp	Saratoga Sprin	NY	
Savannah Bank National Association	Savannah	NY	
State Bank of Chittenango	Chittenango	NY	
State Bank of Long Island	New Hyde Park	NY	
Steuben Trust Co	Hornell	NY	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
The Bank of Greene County	Catskill	NY	
The Bridgehampton National Bank	Bridgehampton	NY	
The First National Bank of Dryden	Dryden	NY	
The First National Bank of Groton	Groton	NY	
The First National Bank of Jeffersonville	Jeffersonville	NY	
The First National Bank of Long Island	Huntington	NY	
The Lyons National Bank	Lyons	NY	
The National Bank of Delaware County,	Walton	NY	
The National Bank of Florida	Florida	NY	
The National Bank of Vernon	Vernon	NY	
The National Union Bank of Kinderhook	Kinderhook	NY	
The Suffolk County National Bank of Riv	Riverhead	NY	
The Tupper Lake National Bank	Tupper Lake	NY	
Union State Bank	Nanuet	NY	
Victory State Bank	Staten Island	NY	
Wilber National Bank	Oneonta	NY	
	New York		***58***
Baltic State Bank	Baltic	OH	
Bank of Magnolia Company	Magnolia	OH	
Bartlett Farmers Bank	Bartlett	OH	
Buckeye Community Bank	Lorain	OH	
Clyde Savings Bank Company	Clyde	OH	
Farmers & Merchants Bank	Caldwell	OH	
First Central National Bank	St. Paris	OH	
First City Bank	Columbus	OH	
Geauga Savings Bank	Newbury	OH	
Home National Bank	Racine	OH	
Lorain National Bank	Lorain	OH	
Metropolitan National Bank	Youngstown	OH	
Mt. Victory State Bank	Mount Victory	OH	
Pataskala Banking Co.	Pataskala	OH	
Peoples Bank Co	Coldwater	OH	
Prospect Bank	Columbus	OH	
Sabina Bank	Sabina	OH	
Somerville National Bank	Somerville	OH	
Sutton Bank	Attica	OH	
Sycamore National Bank	Cincinnati	OH	
The Community Bank	Lancaster	OH	
The Corn City State Bank	Deshler	OH	
The Cortland Savings & Banking Co.	Cortland	OH	
The Edon State Bank Company of Edon	Edon	OH	
The Farmers & Merchants State Bank	Archbold	OH	
The First National Bank of Germantown	Germantown	OH	
The First National Bank of Powhatan Po	Powhatan Poin	OH	
The Hicksville Bank	Hicksville	OH	
The Milton Banking Co.	Wellston	OH	
The Monitor Bank, Inc.	Big Prairie	OH	
The Ottoville Bank Company	Ottoville	OH	
The Rockhold, Brown & Company Bank	Bainbridge	OH	
The Savings Bank	Circleville	OH	
The St. Henry Bank	St. Henry	OH	
The Twin Valley Bank	West Alexandri	OH	
The Waterford Commercial & Savings B	Waterford	OH	
	Ohio		***36***

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Alfalfa County Bank	Cherokee	OK	
American Exchange Bank	Lindsay	OK	
American State Bank	Broken Bow	OK	
Bank of Locust Grove	Locust Grove	OK	
Bank South, National Association	Tulsa	OK	
Citizens Bank of Ada	Ada	OK	
Citizens State Bank	Morrison	OK	
Citizens State Bank	Okemah	OK	
Custer County State Bank	Arapaho	OK	
Farmers & Merchants Bank	Duke	OK	
Farmers & Merchants Bank	Crescent	OK	
Farmers & Merchants Bank	Arnett	OK	
Farmers & Merchants Bank	Maysville	OK	
First American Bank	Stonewall	OK	
First Bank and Trust Company	Perry	OK	
First Bank of Okarche	Okarche	OK	
First Bethany Bank & Trust, NA	Bethany	OK	
First National Bank	Midwest City	OK	
First National Bank	Medford	OK	
First National Bank & Trust Company of	McAlester	OK	
First State Bank	Noble	OK	
First State Bank	Anadarko	OK	
First State Bank	Porter	OK	
First State Bank	Canute	OK	
First State Bank	Boise City	OK	
First State Bank	Grandfield	OK	
Fort Gibson State Bank	Fort Gibson	OK	
Guarantee State Bank	Mangum	OK	
Lakeside Bank of Salina	Salina	OK	
Meno Guaranty Bank	Meno	OK	
Oklahoma Bank and Trust Company	Clinton	OK	
Oklahoma State Bank	Buffalo	OK	
Pauls Valley National Bank	Pauls Valley	OK	
Payne County Bank	Perkins	OK	
Pontotoc County Bank	Roff	OK	
Security State Bank	Cheyenne	OK	
Southwestern Bank & Trust Company	Oklahoma City	OK	
Spiro State Bank	Spiro	OK	
State Guaranty Bank	Okeene	OK	
State National Bank	Eufaula	OK	
Stockmans Bank	Altus	OK	
Sulphur Community Bank	Sulphur	OK	
Territory National Bank	Muskogee	OK	
The American National Bank and Trust	Sapulpa	OK	
The Carney State Bank	Carney	OK	
The Citizens Bank of Edmond	Edmond	OK	
The Farmers Bank	Carnegie	OK	
The First National Bank of Calumet	Calumet	OK	
The First National Bank of Chelsea	Chelsea	OK	
The Security National Bank of Enid	Enid	OK	
Washita State Bank	Burns Flat	OK	
Washita Valley Bank	Fort Cobb	OK	
Welch State Bank of Welch, Oklahoma	Welch	OK	
Weleetka State Bank	Weleetka	OK	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
	Oklahoma		***54***
American Pacific Bank	Portland	OR	
American State Bank	Portland	OR	
Centennial Bank	Eugene	OR	
McKenzie State Bank	Springfield	OR	
Northern Bank of Commerce	Portland	OR	
	Oregon		***5***
Allegiance Bank of North America	Bala Cynwyd	PA	
Altoona First Savings Bank	Altoona	PA	
Blue Ball National Bank	Blue Ball	PA	
Columbia County Farmers National Ban	Bloomsburg	PA	
Community Bank and Trust Company	Clarks Summit	PA	
Community First Bank, National Associa	Reynoldsville	PA	
Community National Bank of Northweste	Albion	PA	
County National Bank	Clearfield	PA	
Downingtown National Bank	Downingtown	PA	
East Prospect State Bank	East Prospect	PA	
Fidelity Deposit & Discount Bank	Dunmore	PA	
Fidelity Savings Bank	Pittsburgh	PA	
First Columbia Bank & Trust Co.	Bloomsburg	PA	
First National Bank	Mercersburg	PA	
First National Community Bank	Dunmore	PA	
First Star Savings Bank	Bethlehem	PA	
First United National Bank	Fryburg	PA	
Firstrust Savings Bank	Philadelphia	PA	
Grange National Bank	Laceyville	PA	
Jersey Shore State Bank	Jersey Shore	PA	
Mercer County State Bank	Sandy Lake	PA	
Omega Bank, National Association	State College	PA	
Pennsylvania State Bank	Camp Hill	PA	
Progress Bank	Bluebell	PA	
Security National Bank	Pottstown	PA	
Stonebridge Bank	West Chester	PA	
Suburban Community Bank	Chalfont	PA	
The Citizens National Bank	Meyersdale	PA	
The First National Bank of Berwick	Berwick	PA	
The First National Bank of Lilly	Lilly	PA	
The First National Bank of Marysville	Marysville	PA	
The First National Bank of Minersville	Minersville	PA	
The First National Bank of Port Allegany	Port Allegany	PA	
The Harleysville National Bank and Trus	Harleysville	PA	
The Hoblitzell National Bank	Hyndman	PA	
The Merchants National Bank of Bangor	Bangor	PA	
The National Bank of North East	North East	PA	
The Peoples Bank of Oxford	Oxford	PA	
The Scottdale Bank and Trust Company	Scottdale	PA	
Union Bank & Trust Co	Pottsville	PA	
Union Building & Loan Savings Bank	West Bridgewa	PA	
Vartan National Bank	Dauphin	PA	
West Milton State Bank	West Milton	PA	
West View Savings Bank	Pittsburgh	PA	
	Pennsylvania		***44***
Bank Rhode Island	Providence	RI	
The Washington Trust Company	Westerly	RI	

The Community Banks listed below oppose the paying of interest on corporate checking.			
Bank	**City**	**State**	**State Count**
	Rhode Island		***2***
Bank of Jefferson	Jefferson	SC	
Bank of Westminster	Westminster	SC	
Beach First National Bank	Myrtle Beach	SC	
Blue Ridge Bank of Walhalla	Walhalla	SC	
Carolina Community Bank, N.A.	Latta	SC	
Carolina State Bank	Chesnee	SC	
Clemson Bank & Trust	Clemson	SC	
Clover Community Bank	Clover	SC	
Community FirstBank of Charleston	Charleston	SC	
Enterprise Bank of South Carolina	Ehrhardt	SC	
First Federal Bank	Spartanburg	SC	
First National Bank of South Carolina	Holly Hill	SC	
First South Bank	Spartanburg	SC	
Florence National Bank	Florence	SC	
Horry County State Bank	Loris	SC	
Orangeburg National Bank	Orangeburg	SC	
Palmetto State Bank	Hampton	SC	
Pamplico Bank & Trust Co	Pamplico	SC	
People's Community Bank of South Car	Aiken	SC	
Sandhills Bank	North Myrtle Be	SC	
South Carolina Bank & Trust	Orangeburg	SC	
The Bank of Abbeville	Abbeville	SC	
The Exchange Bank	Estill	SC	
Williamsburg First National Bank	Kingstree	SC	
	South Carolina		***24***
Campbell County Bank, Inc.	Herreid	SD	
Community Bank	Avon	SD	
CorTrust Bank National Association	Mitchell	SD	
Farmers & Merchants State Bank	Iroquois	SD	
Farmers State Bank	Marion	SD	
Farmers State Bank	Canton	SD	
First American Bank & Trust	Madison	SD	
First Fidelity Bank	Burke	SD	
First State Bank of Claremont	Claremont	SD	
First State Bank of Miller	Miller	SD	
Ipswich State Bank	Ipswich	SD	
Miner County Bank	Howard	SD	
Peoples State Bank	De Smet	SD	
Security State Bank	Alexandria	SD	
State Bank of Eagle Butte	Eagle Butte	SD	
The First National Bank of Volga	Volga	SD	
Valley Exchange Bank	Lennox	SD	
	South Dakota		***17***
Bank of Bartlett	Bartlett	TN	
Bank of Bolivar	Bolivar	TN	
Bank of Frankewing	Frankewing	TN	
Bank of Gleason	Gleason	TN	
Bank of Perry County	Lobelville	TN	
Bank of Tennessee	Collierville	TN	
Benton Banking Company	Benton	TN	
Central Bank	Savannah	TN	
Citizens Bank	Spencer	TN	
Citizens Bank	New Tazewell	TN	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Citizens Bank and Trust Co.	Atwood	TN	
Citizens Bank and Trust Co. of Grainger	Rutledge	TN	
Citizens Bank of Lafayette	Lafayette	TN	
Citizens First Bank	Wartburg	TN	
Commercial Bank	Harrogate	TN	
Community Bank & Trust Company of C	Ashland City	TN	
Cumberland Bank	Carthage	TN	
Erwin National Bank	Erwin	TN	
Farmers Bank	Parsons	TN	
Farmers Bank	Cornersville	TN	
Farmers State Bank	Mountain City	TN	
First Bank and Trust Company of Tenne	Johnson City	TN	
First Central Bank	Lenoir City	TN	
First Claiborne Bank	Tazewell	TN	
First Community Bank of Bedford Count	Shelbyville	TN	
First National Bank	Lenoir City	TN	
First National Bank of La Follette	La Follette	TN	
First National Bank of Pikeville	Pikeville	TN	
First State Bank	Henderson	TN	
First Volunteer Bank of East Tennessee	Jacksboro	TN	
Johnson County Bank	Mountain City	TN	
Merchants & Planters Bank	Toone	TN	
Mountain National Bank	Sevierville	TN	
National Commerce Financial	Memphis	TN	
People's Bank and Trust Company	Byrdstown	TN	
Peoples Bank of Polk County	Benton	TN	
Reelfoot Bank	Union City	TN	
Rhea County National Bank	Dayton	TN	
The Bank of Waynesboro	Waynesboro	TN	
The Farmers & Merchants Bank	Dyer	TN	
The First National Bank and Trust Comp	Athens	TN	
The Lauderdale County Bank	Halls	TN	
Union Planters Bank of the Lakeway Are	Morristown	TN	
Volunteer State Bank	Portland	TN	
	Tennessee		***44***
1st International Bank	Plano	TX	
Alamo Bank of Texas	Alamo	TX	
American Bank of Texas	Sherman	TX	
American Bank, National Association	Dallas	TX	
American First National Bank	Houston	TX	
American State Bank	Lubbock	TX	
Anahuac National Bank	Anahuac	TX	
Arrowhead Bank	Llano	TX	
Asian American National Bank	Houston	TX	
Atascosa National Bank	Pleasanton	TX	
Bandera Bank	Bandera	TX	
Bank of Tanglewood, N.A.	Houston	TX	
Bank of the Hills, National Association	Kerrville	TX	
Bank of the West	Irving	TX	
Bank of the West	Odessa	TX	
Bank of the West	El Paso	TX	
Benchmark Bank	Quinlan	TX	
Bridge City State Bank	Bridge City	TX	
Broadway National Bank	San Antonio	TX	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Brookhollow National Bank	Dallas	TX	
Brush Country Bank	Freer	TX	
CaminoReal Bank, National Association	San Antonio	TX	
Capital Bank	Houston	TX	
Carmine State Bank	Carmine	TX	
Chappell Hill Bank	Chappell Hill	TX	
Citizens Bank	Slaton	TX	
Citizens Bank of Texas, N.A.	New Waverly	TX	
Citizens National Bank	Crosbyton	TX	
Citizens Bank	Abeline	TX	
Citizens Bank	Shamrock	TX	
Citizens Bank & Trust Company	Baytown	TX	
Citizens National Bank	Fort Worth	TX	
Citizens National Bank	Crockett	TX	
Citizens National Bank	Hillsboro	TX	
Citizens National Bank at Brownwood	Brownwood	TX	
Citizens National Bank in Waxahachie	Waxahachie	TX	
Citizens National Bank of Breckenridge	Breckenridge	TX	
Citizens National Bank of Texas	Bellaire	TX	
Citizens State Bank	Roma	TX	
Citizens State Bank	Ganado	TX	
Citizens State Bank	Somerville	TX	
Citizens State Bank	Anton	TX	
Citizens State Bank	Corrigan	TX	
Citizens State Bank	Princeton	TX	
Citizens State Bank	Sealy	TX	
City National Bank	Weslaco	TX	
Coleman County State Bank	Coleman	TX	
Columbus State Bank	Columbus	TX	
Commercial National Bank	Brady	TX	
Commercial State Bank	Andrews	TX	
Commercial State Bank	El Campo	TX	
Commercial State Bank	Palmer	TX	
Community Bank	Longview	TX	
Community Bank	Katy	TX	
Community National Bank	Detroit	TX	
Community National Bank	Midland	TX	
Community National Bank	Hondo	TX	
Community State Bank	Austin	TX	
Corsicana National Bank & Trust	Corsicana	TX	
Coupland State Bank	Coupland	TX	
Crosby State Bank	Crosby	TX	
Crowell State Bank	Crowell	TX	
Dallas National Bank	Dallas	TX	
Dilley State Bank	Dilley	TX	
East Texas National Bank	Palestine	TX	
Elsa State Bank & Trust Co.	Elsa	TX	
Enterprise Bank	Houston	TX	
Falfurrias State Bank	Falfurrias	TX	
Farmers & Merchants Bank	De Leon	TX	
Farmers & Merchants State Bank	Krum	TX	
Farmers & Merchants State Bank	Ladonia	TX	
Farmers National Bank	Forney	TX	
Farmers National Bank of Seymour	Seymour	TX	

The Community Banks listed below oppose the paying of interest on corporate checking.			
Bank	**City**	**State**	**State Count**
Farmers State Bank	Center	TX	
Fayetteville Bank	Fayetteville	TX	
Fayetteville Savings Bank, SSB	La Grange	TX	
Fidelity Bank of Texas	Waco	TX	
First Bank	Houston	TX	
First Bank	Groveton	TX	
First Bank & Trust Company of Bartlett	Bartlett	TX	
First Bank Howe	Howe	TX	
First Bank of Conroe, National Associati	Conroe	TX	
First Bank-Farmersville	Farmersville	TX	
First Citizens Bank, National Associatior	Dallas	TX	
First Commercial Bank, National Associ	Seguin	TX	
First Community Bank, N.A.	Houston	TX	
First Corman National Bank	Corman	TX	
First Mercantile Bank, National Associat	Dallas	TX	
First National Bank	Seymour	TX	
First National Bank	Bryan	TX	
First National Bank	Kemp	TX	
First National Bank	St. Jo	TX	
First National Bank	Jasper	TX	
First National Bank	Seminole	TX	
First National Bank	Haskell	TX	
First National Bank	Giddings	TX	
First National Bank	Fabens	TX	
First National Bank	Sweetwater	TX	
First National Bank	Shiner	TX	
First National Bank	Ballinger	TX	
First National Bank	Canton	TX	
First National Bank	Winnsboro	TX	
First National Bank	Quitaque	TX	
First National Bank	Shamrock	TX	
First National Bank in Bronte	Bronte	TX	
First National Bank in Cameron	Cameron	TX	
First National Bank in Dalhart	Dalhart	TX	
First National Bank in Lockney	Lockney	TX	
First National Bank in Munday	Munday	TX	
First National Bank in Port Lavaca	Port Lavaca	TX	
First National Bank in Quanah	Quanah	TX	
First National Bank of Bay City	Bay City	TX	
First National Bank of Bellaire	Bellaire	TX	
First National Bank of Bells/Savoy	Bells	TX	
First National Bank of Brownfield	Brownfield	TX	
First National Bank of Bullard	Bullard	TX	
First National Bank of Burleson	Burleson	TX	
First National Bank of Central Texas	Waco	TX	
First National Bank of Claude	Claude	TX	
First National Bank of Dublin	Dublin	TX	
First National Bank of Hamilton	Hamilton	TX	
First National Bank of Lake Jackson	Lake Jackson	TX	
First National Bank of Midland	Midland	TX	
First National Bank of Sachse	Sachse	TX	
First National Bank of San Benito	San Benito	TX	
First National Bank West Texas	Hale Center	TX	
First National Bank-Graford	Graford	TX	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
First Presidio Bank	Presidio	TX	
First Security Bank	Flower Mound	TX	
First State Bank	Frankton	TX	
First State Bank	Ben Wheeler	TX	
First State Bank	Abernathy	TX	
First State Bank	Chico	TX	
First State Bank	Hemphill	TX	
First State Bank	Moulton	TX	
First State Bank	Yoakum	TX	
First State Bank	Mount Calm	TX	
First State Bank	Hawkins	TX	
First State Bank	Overton	TX	
First State Bank	Spearman	TX	
First State Bank	Bedias	TX	
First State Bank in Tuscola	Tuscola	TX	
First State Bank of Keene	Keene	TX	
First State Bank of Mineral Wells	Mineral Wells	TX	
First State Bank of North Texas	Cedar Hill	TX	
First-Lockhart National Bank	Lockhart	TX	
First-Nichols National Bank	Kenedy	TX	
Fort Worth National Bank	Fort Worth	TX	
Founders National Bank-Skillman	Dallas	TX	
Franklin National Bank	Mount Vernon	TX	
Friona State Bank	Friona	TX	
Gilmer National Bank	Gilmer	TX	
Grand Prairie State Bank	Grand Prairie	TX	
Granger National Bank	Granger	TX	
Gruver State Bank	Gruver	TX	
Hale County State Bank	Plainview	TX	
Heritage Savings Bank, SSB	Terrell	TX	
Highland Lakes Bank	Kingsland	TX	
HomeBank	Seagoville	TX	
Independence Bank, National Associatio	Houston	TX	
International Bank of Commerce	Brownsville	TX	
Inwood National Bank	Dallas	TX	
Johnson City Bank	Johnson City	TX	
Junction National Bank	Junction	TX	
Justin State Bank	Justin	TX	
Katy Bank, National Association	Katy	TX	
Kent County State Bank	Jayton	TX	
Klein Bank	Houston	TX	
Lacoste National Bank	La Coste	TX	
Lake Area National Bank	Trinity	TX	
Lakeside National Bank	Rockwall	TX	
Lamesa National Bank	Lamesa	TX	
League City Bank & Trust	League City	TX	
Lone Oak State Bank	Lone Oak	TX	
Lone Star State Bank	Lone Star	TX	
Longview Bank and Trust Company	Longview	TX	
Lubbock National Bank	Lubbock	TX	
Mason National Bank	Mason	TX	
Medina Valley State Bank	Devine	TX	
Muenster State Bank	Muenster	TX	
National Bank of Daingerfield	Daingerfield	TX	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
NBC Bank	Rockdale	TX	
North Dallas Bank & Trust Company	Dallas	TX	
North Houston Bank	Houston	TX	
Northwest Bank	Roanoke	TX	
Northwest National Bank of Arlington	Arlington	TX	
Ozona National Bank	Ozona	TX	
Panola National Bank	Carthage	TX	
Pavillion Bank	Dallas	TX	
Pearland State Bank	Pearland	TX	
Pecos County State Bank	Fort Stockton	TX	
Peoples National Bank	Paris	TX	
Peoples State Bank	Shepherd	TX	
Plains State Bank	Plains	TX	
Plaza Bank, National Association	San Antonio	TX	
Pointbank, N.A.	Pilot Point	TX	
Rio National Bank	McAllen	TX	
Riverbend Bank, National Association	Fort Worth	TX	
Round Top State Bank	Round Top	TX	
Sanger Bank	Sanger	TX	
Security Bank, National Association	Garland	TX	
Security National Bank of San Antonio	San Antonio	TX	
Security State Bank	Farwell	TX	
Security State Bank	Littlefield	TX	
Security State Bank	Anahuac	TX	
Security State Bank	Pearsall	TX	
Security State Bank	McCamey	TX	
Security State Bank & Trust	Fredericksburg	TX	
Somerset National Bank	Somerset	TX	
Southwest Bank of Texas	Baytown	TX	
State Bank & Trust of Seguin, Texas	Seguin	TX	
State National Bank, El Paso, Texas	El Paso	TX	
Sterling Bank	Houston	TX	
Summit Community Bank, National Ass	Fort Worth	TX	
Sundown State Bank	Sundown	TX	
Texas Bank	Brownwood	TX	
Texas Community Bank & Trust	Dallas	TX	
Texas First State Bank	Riesel	TX	
Texas Guaranty Bank, National Associa	Houston	TX	
Texas National Bank of Jacksonville	Jacksonville	TX	
Texas State Bank	San Angelo	TX	
Texline State Bank	Texline	TX	
The American National Bank of Mt. Plea	Mount Pleasan	TX	
The Bank of Texas	Devine	TX	
The Blanco National Bank	Blanco	TX	
The Brenham National Bank	Brenham	TX	
The Commercial Bank	Mason	TX	
The Express Bank	Alvin	TX	
The Falls City National Bank	Falls City	TX	
The Farmers State Bank	Groesbeck	TX	
The First Bank of Celeste	Celeste	TX	
The First National Bank	Paducah	TX	
The First National Bank in Cooper	Cooper	TX	
The First National Bank of Amarillo	Amarillo	TX	
The First National Bank of Aspermont	Aspermont	TX	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
The First National Bank of Bellville	Bellville	TX	
The First National Bank of Canadian	Canadian	TX	
The First National Bank of Eagle Lake	Eagle Lake	TX	
The First National Bank of Littlefield	Littlefield	TX	
The First National Bank of Mineola	Mineola	TX	
The First National Bank of Quitman	Quitman	TX	
The First National Bank of Refugio	Refugio	TX	
The First National Bank of Sterling City	Sterling City	TX	
The First State Bank	Jasper	TX	
The First State Bank	Bishop	TX	
The First State Bank	Columbus	TX	
The First State Bank	Celina	TX	
The Herring National Bank	Vernon	TX	
The Hondo National Bank	Hondo	TX	
The Karnes County National Bank	Karnes City	TX	
The Liberty National Bank in Paris	Paris	TX	
The National Bank of Andrews	Andrews	TX	
The National Bank of Madisonville	Madisonville	TX	
The Peoples State Bank	Clyde	TX	
The Security National Bank	Quanah	TX	
The Security State Bank	Wingate	TX	
TownBank, National Association	Mesquite	TX	
Union State Bank	Carrizo Springs	TX	
Union State Bank	Florence	TX	
United Central Bank	Garland	TX	
West Bank & Trust	West	TX	
Western Bank & Trust	Duncanville	TX	
Whisperwood National Bank	Lubbock	TX	
White Oak State Bank	White Oak	TX	
Woodforest National Bank	Houston	TX	
Yoakum National Bank	Yoakum	TX	
	Texas		***266***
American Bank of Commerce d/b/a AmE	Provo	UT	
Bank of Ephraim	Ephraim	UT	
Bonneville Bank	Provo	UT	
Brighton Bank	Salt Lake City	UT	
Capital Community Bank	Orem	UT	
Centennial Bank	Ogden	UT	
Far West Bank	Provo	UT	
Liberty Bank, Inc.	Salt Lake City	UT	
The Village Bank	St. George	UT	
Utah Independent Bank	Salina	UT	
Western Community Bank	Orem	UT	
	Utah		***11***
Bank of Hampton Roads	Chesapeake	VA	
Bank of McKenney	McKenney	VA	
Bank of the Commonwealth	Norfolk	VA	
Bank of Tidewater	Virginia Beach	VA	
Cardinal Bank, N.A.	Manassas	VA	
Citizens Bank & Trust Co.	Blackstone	VA	
Citizens Community Bank	South Hill	VA	
Community Bankers' Bank	Richmond	VA	
Community National Bank	Pulaski	VA	
F & M Bank-Northern Virginia	Fairfax	VA	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
First and Citizens Bank	Monterey	VA	
First Commonwealth Bank	Wise	VA	
First State Bank	Danville	VA	
James Monroe Bank	Arlington	VA	
Monarch Bank	Chesapeake	VA	
New Peoples Bank, Inc.	Honaker	VA	
Peoples Community Bank	Montross	VA	
Powell Valley National Bank	Jonesville	VA	
Prosperity Bank & Trust Company	Springfield	VA	
The Bank of Fincastle	Fincastle	VA	
The Bank of Floyd	Floyd	VA	
The Bank of Richmond, National Associ	Richmond	VA	
The Bank of Southside Virginia	Carson	VA	
The Bluegrass Valley Bank	Blue Grass	VA	
The Business Bank	Vienna	VA	
The First Bank and Trust Company	Lebanon	VA	
Valley Bank	Roanoke	VA	
Virginia Commerce Bank	Arlington	VA	
	Virginia		*28*
First Brandon National Bank	Brandon	VT	
	Vemont		*1*
American Marine Bank	Bainbridge Islar	WA	
Asia-Europe-Americas Bank	Seattle	WA	
Bank Northwest	Bellingham	WA	
Charter Bank	Bellevue	WA	
Community First Bank	Kennewick	WA	
Farmers State Bank	Winthrop	WA	
Farmington State Bank	Farmington	WA	
First Heritage Bank	Snohomish	WA	
First Savings Bank of Renton	Renton	WA	
Fremont First National Bank	Seattle	WA	
Harbor Community Bank	Raymond	WA	
Inland Northwest Bank	Spokane	WA	
Lamont Bank of St. John	St. John	WA	
North County Bank	Arlington	WA	
Seattle Savings Bank	Seattle	WA	
State Bank of Concrete	Concrete	WA	
The Cowlitz Bank	Longview	WA	
Washington State Bank, National Assoc	Federal Way	WA	
Westside Community Bank	University Plac	WA	
Whidbey Island Bank	Oak Harbor	WA	
	Washington		*20*
American National Bank	Beaver Dam	WI	
Bank North	Crivitz	WI	
Bank of Buffalo	Cochrane	WI	
Bank of Galesville	Galesville	WI	
Bank of Helenville	Helenville	WI	
Bank of Milton	Milton	WI	
Bank of Prairie du Sac	Prairie du Sac	WI	
Banner Banks	Birnamwood	WI	
Capitol Bank	Madison	WI	
Charter Bank Eau Claire	Eau Claire	WI	
Chippewa Valley Bank	Winter	WI	
Citizens State Bank and Trust	Fort Atkinson	WI	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
Cleveland State Bank	Cleveland	WI	
Community Business Bank	Sauk City	WI	
Community National Bank	Oregon	WI	
Dairy State Bank	Rice Lake	WI	
Dairyland State Bank	Bruce	WI	
F&M Bank - Superior	Superior	WI	
F&M Bank-Darlington	Darlington	WI	
Farmers & Merchants Bank	Rudolph	WI	
Farmers & Merchants Bank	Orfordville	WI	
Farmers Savings Bank	Mineral Point	WI	
Farmers State Bank	Bangor	WI	
Farmers State Bank	Ridgeland	WI	
First Bank Financial Centre	Oconomowoc	WI	
First National Bank	Eagle River	WI	
First National Bank	Barron	WI	
First National Bank	Park Falls	WI	
First National Bank	New Richmond	WI	
First National Bank of Hartford	Hartford	WI	
Grafton State Bank	Grafton	WI	
Green Lake State Bank	Green Lake	WI	
Headwaters State Bank	Land O'Lakes	WI	
Hiawatha National Bank	Hager City	WI	
Highland State Bank	Highland	WI	
Independence State Bank	Independence	WI	
International Bank of Amherst	Amherst	WI	
Laona State Bank	Laona	WI	
Lincoln Community Bank	Milwaukee	WI	
M&I Mid-State Bank	Stevens Point	WI	
Marshfield Savings Bank	Marshfield	WI	
Mid America Bank	Footville	WI	
Middleton Community Bank	Middleton	WI	
Nekoosa Port Edwards State Bank	Nekoosa	WI	
North Milwaukee State Bank	Milwaukee	WI	
Peoples State Bank	Prairie du Chier	WI	
Peoples State Bank	Augusta	WI	
Pigeon Falls State Bank	Pigeon Falls	WI	
Pioneer Bank	Auburndale	WI	
Port Washington State Bank	Port Washingto	WI	
Premier Bank	Fort Atkinson	WI	
Richland County Bank	Richland Cente	WI	
River Bank	Stoddard	WI	
South Milwaukee Savings Bank	South Milwauke	WI	
State Bank of Cazenovia	Cazenovia	WI	
State Bank of Howards Grove	Howards Grove	WI	
State Bank of Random Lake	Random Lake	WI	
State Bank of Reeseville	Reeseville	WI	
Sunset Bank & Savings	Waukesha	WI	
Superior National Bank	Superior	WI	
The Bank of Kaukauna	Kaukauna	WI	
The Benton State Bank	Benton	WI	
The First Citizens State Bank of Whitew	Whitewater	WI	
The First National Bank and Trust Com	Baraboo	WI	
The First National Bank of Hudson	Hudson	WI	
The First National Bank of Stoughton	Stoughton	WI	

The Community Banks listed below oppose the paying of interest on corporate checking.

Bank	City	State	State Count
The Greenwood's State Bank	Lake Mills	WI	
The National Bank of Waupun	Waupun	WI	
The Park Bank	Madison	WI	
The Pineries Bank	Stevens Point	WI	
The River Bank	Osceola	WI	
Tomahawk Community Bank, S.S.B.	Tomahawk	WI	
TSB Bank	Lomira	WI	
Union State Bank	West Salem	WI	
Union State Bank	Kewaunee	WI	
United Bank	Osseo	WI	
West Pointe Bank	Oshkosh	WI	
	Wisconsin		***77***
Bank of Charles Town	Charles Town	WV	
Barbour County Bank	Philippi	WV	
Bruceton Bank	Bruceton Mills	WV	
Capon Valley Bank	Wardensville	WV	
First Exchange Bank	Mannington	WV	
First National Bank	Spencer	WV	
The Bank of Monroe	Union	WV	
The First State Bank	Barboursville	WV	
The Poca Valley Bank	Walton	WV	
The Terra Alta Bank	Terra Alta	WV	
	West Virginia		***10***
Bank of Lovell, National Association	Lovell	WY	
Community First National Bank	Cheyenne	WY	
Farmers State Bank	Pine Bluffs	WY	
First National Bank of Pinedale	Pinedale	WY	
First State Bank of Newcastle	Newcastle	WY	
Pinnacle Bank of Wyoming	Torrington	WY	
Uinta County State Bank	Mountain View	WY	
	Wyoming		***7***
	Total		***1816***

DEPARTMENT OF FINANCIAL INSTITUTIONS

G. Edward Leary
Commissioner
Michael L. Jones
Chief Examiner
R. Paul Allred
Deputy Commissioner

STATE OF UTAH

Michael O. Leavitt
Governor
Olene S. Walker
Lieutenant Governor

March 10, 2003

Chairman Michael Oxley
House Financial Services Committee
House of Representatives
Rayburn Building, Room 2233
Washington DC 20515

Dear Chairman Oxley:

As the Commissioner of the Utah Department of Financial Institutions ("UDFI"), I want to encourage the Financial Services Committee to treat all FDIC-insured depository institutions equitably and to extend substantially the same authority to Industrial Loan Companies ("ILCs") as might be conferred on insured banks that operate within a bank or financial holding company structure.

The UDFI is charged with the supervision of all Utah-chartered depository institutions including commercial banks, savings banks, ILCs and credit unions. The UDFI has responsibly, prudently and effectively regulated the ILC industry. The UDFI conducts this supervisory role in partnership with the relevant federal agency, the Federal Deposit Insurance Corporation ("FDIC").

This joint supervisory framework operates to ensure that ILCs comply with the letter and spirit of all applicable laws and regulations. Moreover, this joint federal and state supervision provides maximum protection to the federal deposit insurance fund and preserves confidence in the state banking system.

Pending in Congress is a bill that would authorize banks to pay interest on business checking accounts. As your Committee deliberates on the merits of such legislation, I would encourage the members to treat all FDIC-insured depository institutions equitably and to extend substantially the same authority to ILCs as might be conferred on insured banks that operate within a bank or financial holding company structure. And as you know, FDIC Chairman Don Powell, when questioned during the hearing on business checking, said that there was no safety and soundness reason to deny the authority to pay interest on business checking accounts to ILCs.

The ILC charter serves to foster increased competition in a well regulated environment to the benefit of consumers of financial services. I see no valid public policy reason for singling out the ILC charter for discriminatory treatment.

I would be happy to discuss this matter further with you or your staff.

Sincerely,

G. Edward Leary
Commissioner

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(801) 538-8830 (801) 538-8894 Fax www.dfi.utah.gov

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

March 4, 2003

The Honorable Spencer Bachus
Chairman
Subcommittee on Financial Institutions and Consumer Credit
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for the opportunity to comment on legislative proposals that would permit insured depository institutions to pay interest on their business customers' checking accounts. The OCC has a strong and continuing commitment to reducing economic inefficiencies and unnecessary burdens on financial institutions.

In a joint report submitted to Congress in September, 1996, the Office of the Comptroller of the Currency (OCC), the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), and the Office of Thrift Supervision (OTS), recommended removal of the prohibition on paying interest on demand deposits. *See* Joint Report: Streamlining of Regulatory Requirements (September, 1996). At that time, the OCC and the other agencies said that the prohibition "no longer serves a public purpose."

The OCC continues to believe that the prohibition on paying interest on business checking accounts is outdated and should be repealed; however, we also recommend linking removal of the prohibition to an appropriate transition period to allow financial institutions to make necessary changes in their funding sources and pricing.

Thank you again for your willingness to consider the OCC's views on this issue.

Sincerely,

John D. Hawke, Jr.
Comptroller of the Currency

FEDERAL DEPOSIT INSURANCE CORPORATION, Washington DC 20429

DONALD E. POWELL
CHAIRMAN

March 3, 2003

Honorable Michael G. Oxley
Chairman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am pleased to have this opportunity to share the views of the Federal Deposit Insurance Corporation regarding permitting banks to pay interest on business demand deposits. The FDIC has long believed that the current prohibition is antiquated and no longer serves a useful purpose.

As you know, the prohibition on the payment of interest on business demand deposits stems from Depression-era bank price controls enacted by Congress. Along with interest-rate ceilings on time and savings deposits, the prohibition on paying interest on business demand deposits was intended to control price competition for deposits. It was argued at the time that such price competition could destabilize the banking system and redirect funds from productive to speculative uses.

Whatever validity these arguments may have had then, they have little today. Interest-rate ceilings were phased out by Congress in the early 1980s. In our present economy, there is no reason to expect that removing this last vestige of interest-rate controls would divert funds from one geographic region to another or contribute to instability in the banking system.

Although individual banks and customers may be marginally affected by removing the prohibition, allowing banks to pay interest on business demand deposits will not threaten the stability of the banking system. Eliminating the prohibition would lead to greater economic efficiency as banks would be able to charge explicitly for services they now provide for free or at a discount. The time and expense associated with transactions designed to circumvent the prohibition, such as interest-rate sweep accounts, would be reduced or eliminated.

Banks should be able to manage any additional costs that might result from this legislative change. They currently pay interest on demand-like deposits, including interest-bearing sweep accounts that function as demand deposits for businesses and interest-bearing NOW accounts for consumers, non-profit groups and governmental units. Also, banks could continue to offer non-interest-bearing demand deposits to business customers as part of a package of banking services.

The payment of interest on business demand deposits neither raises safety-and-soundness concerns nor threatens the stability of the banking system. Moreover, removing this prohibition will enhance economic efficiency. We would encourage and support legislation to eliminate the prohibition on paying interest on business demand deposits.

Please do not hesitate to contact Alice Goodman, Director of our Office of Legislative Affairs, at (202) 898-8730 if we can be of any further assistance.

Sincerely,

Donald E. Powell

Office of Thrift Supervision
Department of the Treasury
1700 G Street, N.W., Washington, DC 20552 • (202) 906-6590

James E. Gilleran
Director

March 3, 2003

The Honorable Spencer Bachus
Chairman
House Subcommittee on Financial Institutions
and Consumer Credit
Washington, DC 20515

Dear Chairman Bachus:

Thank you for the opportunity to comment on the "Business Checking Freedom Act of 2003." In 1996, the federal banking agencies reported to Congress that the statutory prohibition on paying interest on demand deposits no longer serves a public purpose. The Office of Thrift Supervision continues to maintain this position and strongly supports the proposed legislation.

Prohibiting the payment of interest on business checking accounts is largely ineffective for three reasons. First, the use of "sweep accounts" effectively circumvents the prohibition by allowing business customers to have the funds swept out of their demand deposit account each night into an interest bearing or investment account. The funds are returned to the customer's demand deposit account the next morning.

Second, the ability of depositories to offer interest directly on demand deposit accounts should help smaller institutions compete with other financial providers, such as money market mutual funds, that offer liberal check writing, ATM access, and similar services through interest-paying transaction accounts. This will promote market and institutional efficiencies.

Third, for competitive and fairness reasons, it makes no sense to permit sweep arrangements with indirect payment of interest on accounts without also allowing institutions the option of direct payments. The current situation should be modernized.

We appreciate your consideration of this matter. If you have any questions, please do not hesitate to contact me or Kevin Petrasic, Director of Congressional Affairs, at 202-906-6288.

Sincerely,

James E. Gilleran

cc: The Honorable Michael Oxley
The Honorable Barney Frank

ICBA
INDEPENDENT COMMUNITY BANKERS *of* AMERICA

March 10, 2003

The Honorable Sue W. Kelly
Committee on Financial Services
United States House of Representatives
2128 Rayburn House Office Building
Washington, D. C. 20515-6050

Dear Representative Kelly:

At the March 5th hearing held by the Financial Institutions and Consumer Credit Subcommittee on legislation (H.R. 758 and H.R. 859) regarding the payment of interest on business checking accounts and the payment of interest on sterile reserves held at Federal Reserve banks, you asked our witness, R. Michael S. Menzies, Sr., for ICBA to respond in writing concerning our position on a possible effort to add provisions that would allow industrial loan companies (ILCs) to offer business NOW accounts.

ICBA and the nearly 5,000 community banks that it represents nationwide would oppose such an effort in the strongest terms. As Mr. Menzies stated for the record in his oral statement, our opposition would be based on ICBA's "historical and staunchly-held support for maintaining the wall between banking and commerce, which was so strongly reaffirmed in the Gramm-Leach-Bliley Act. Thus, any effort in the context of this legislation to add provisions related to [ILCs] would raise strong opposition from our membership, since ILCs can be owned by commercial firms. As [Federal Reserve Board] Chairman Greenspan has noted, this legislation should not be the vehicle for expansion of ILC powers."

As you know, Chairman Greenspan's above-referenced remark was made at a February 12, 2003 hearing held by the Financial Services Committee at which you sought his comments on the possibility of ILCs receiving business NOW account authority. He was reiterating the Fed's longstanding opposition on this matter, which he had noted in an April 2, 2001 letter to Chairman Oxley after a similar provision was added to your legislation (H.R. 974) on interest on business checking from the 107th Congress. Chairman Greenspan then wrote that "[w]hile this appears at first to be a minor amendment, it could in fact have significant ramifications." He noted that ILCs "chartered in certain states are exempt from the definition of "bank" in the Bank Holding Company Act . . .[and thus] any type of company, including a commercial entity, may own an [ILC] chartered in a grandfathered state." Chairman Greenspan added:

> "[This provision] would greatly expand the powers of [ILCs] and make them virtually indistinguishable from commercial banks. Consequently, the [amendment] would broadly expand the mixing of banking and commerce by making [ILCs] virtually identical in powers to commercial banks. It would also provide a significant competitive advantage to owners of [ILCs] because these commercial companies are not subject to supervision under the Bank Holding Company Act while owners of banks are subject to that Act."

A similar situation arose last year when Wal-Mart sought to acquire a California-based industrial bank, from which the retail behemoth could have launched a nationwide banking operation. The California legislature subsequently passed a bill that was then signed into law on September 30, 2002 prohibiting Wal-Mart, or any other commercial firm that could not qualify as a financial holding company under the Gramm-Leach-Bliley Act, from gaining ownership of an industrial bank in that state.

ICBA: *The Nation's Leading Voice for Community Banks*
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The Honorable Sue W. Kelly
March 10, 2003

Three key players in the shaping of the Gramm-Leach-Bliley Act — former House Banking Committee Chairman Jim Leach (R-IA), former House Commerce Committee Chairman Tom Bliley (R-VA) and current Senate Banking Committee Ranking Member Paul Sarbanes (D-MD) — all weighed in against Wal-Mart's effort in California due to concerns related to the mixing of banking and commerce.

In an August 30, 2002 letter to then-California State Assembly Banking and Finance Committee Chairman Louis Papan, Representative Leach wrote that "Congress ultimately determined [in the Gramm-Leach-Bliley Act] to maintain the separation between [banking and commerce . . . due to] the implications for the creation of conflicts-of-interest and the abuses attendant to the concentration of power that are inherent in mixing banking and commerce."

In an August 16, 2002 column in the **American Banker** newspaper, former Representative Bliley noted that during the deliberations on the Gramm-Leach-Bliley Act, he had actually supported keeping the unitary thrift loophole open, an exception that would have continued to allow commercial firms like Wal-Mart to gain entry into the banking business. He noted, however, that "with the benefit of hindsight, it is better that I lost. What changed my mind? In a word, Enron." He also noted:

> "Now the law is clear and consistent: If you want to own a bank, you need to be a bank holding company, and that means your business needs to be financial services—not commercial endeavors . . . Allowing Wal-Mart to buy a bank after we set a strict rule of separation between banking and commerce at the federal level will set a precedent for other businesses to do the same. Once that happens, I am concerned that it will open the floodgates for other businesses to get into banking through the California loophole, and that sooner or later this will cause safety and soundness problems for our banking system. When that happens, it won't just be shareholders on the hook — it will take all our tax dollars (through FDIC insurance) to fix it."

Further, in an August 30, 2002 letter to Chairman Papan, Senator Sarbanes noted that "[a]s Alan Greenspan, Robert Rubin, and Paul Volcker have pointed out, affiliations between federally insured banks and commercial companies pose great risks to the safety and soundness of our financial system, distort credit decisions, and lead to concentrations of economic power that should not be permitted."

Proponents of business NOW account authority for ILCs will likely argue that last year's California debate is not analogous to this endeavor. Indeed, they may seek to portray this effort as a minor change aimed at providing increased flexibility under an already-narrow ILC charter. Such a spurious argument should be seen for what it is. Giving ILCs business NOW account authority will expand this charter — and consequently the federal safety net — far beyond the original intent of ILCs as limited-purpose banks, and will be an opportunity to breach our nation's historical banking/commerce barrier that is far too enticing for commercial firms presently not allowed to enter the banking business to pass up.

Sincerely,

K Guenther

Kenneth A. Guenther
President and CEO
Independent Community Bankers of America

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